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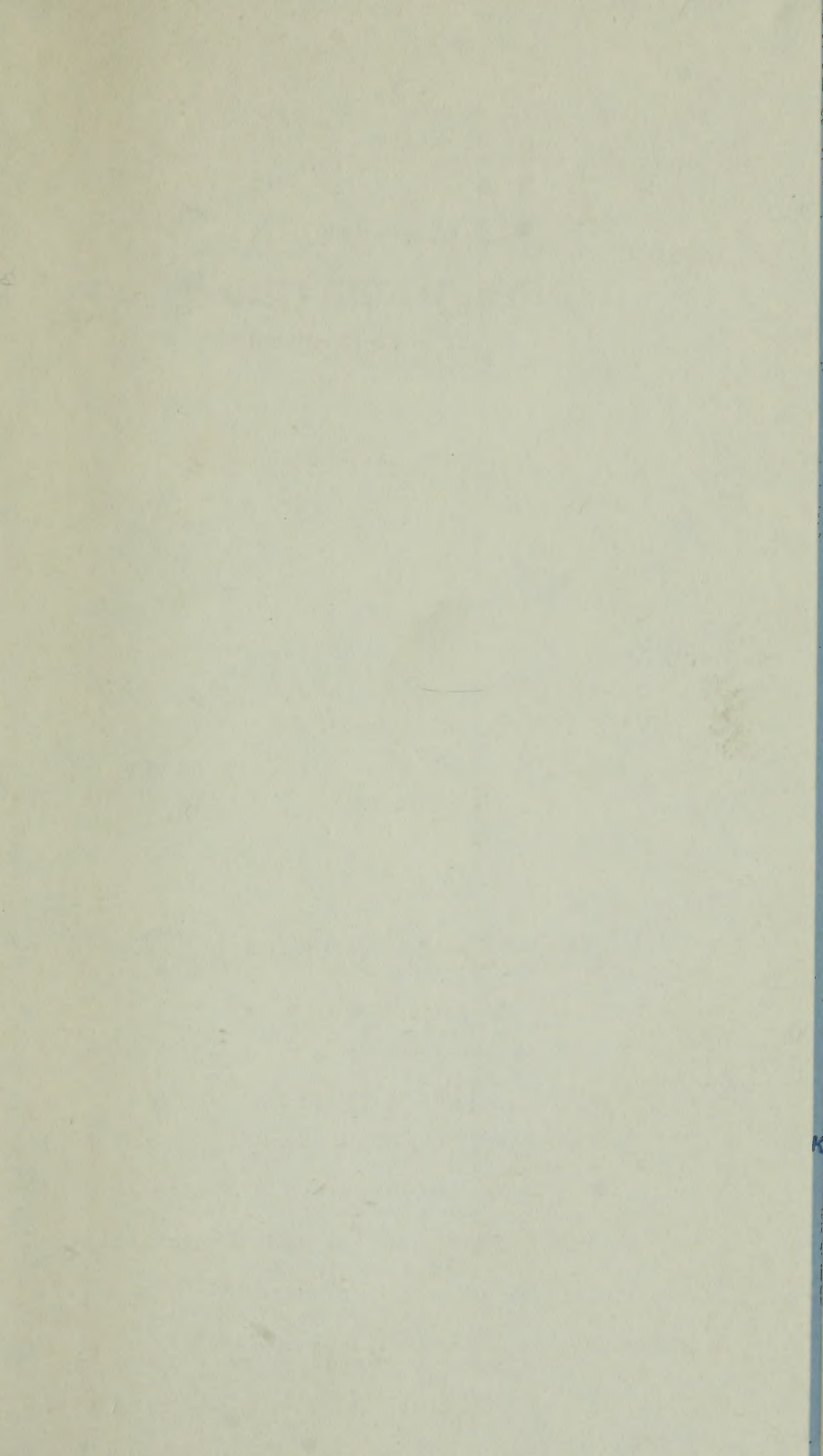
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36
No. 15057

United States
Court of Appeals
for the Ninth Circuit

See Vol.
3035

MOIST COLD REFRIGERATOR CO., INC., a
Corporation,

Appellant,

vs.

LOU JOHNSON CO., INC., a Corporation;
MEIER & FRANK COMPANY, INC., a Cor-
poration; ADMIRAL CORPORATION, a
Corporation, and AMANA REFRIGERA-
TION, INC., a Corporation,

Appellees.

Transcript of Record **FILE**

In Four Volumes

Volume III

(Pages 807 to 1204)

JUL -6 1956

PAUL P. O'BRIEN, CLERK

Appeal from the United States District Court for the
District of Oregon

No. 15057

**United States
Court of Appeals**
for the Ninth Circuit

MOIST COLD REFRIGERATOR CO., INC., a
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District of Oregon**

(Testimony of Norman S. Parker.)

ing in the [812] refrigerated condition foods susceptible to moisture loss by evaporation and below freezing dry cold air and a dry cold surface for preserving foods in a frozen condition?

A. Read the question, please.

The Court: Just the first five or six lines of Claim 2 of the reissue patent.

The Witness: Well, the first five lines of the Claim 2 of the reissue patent are properly descriptive of the Admiral structure about which I have testified. It has an above freezing moist cold air compartment and a below freezing dry cold air compartment with a dry cold surface for preserving foods in a frozen condition.

Q. (By Mr. Cheatham): Would you point out to the Court and the jury those elements in the Admiral refrigerator, Exhibit 10-A, and supplement that by using Exhibit 9-A-1?

A. The Exhibit 10-A of which I have just opened the door has an upper compartment closed by a pair of doors, and I notice that on one of these doors there is the wording "Dual-Temp Sub-Zero Locker." This locker with this assembly is the — it's shown in — broken-down or taken-down condition in Defendants' Exhibit 117-A.

In other words, you see the back of a liner and if you look in the front you would see a liner which is exactly the same as what has been described on this machine as a sub-zero locker. And this is, as a matter of fact, a [813] sub-zero locker and the refrigeration coils shown around the exposed sleeve

(Testimony of Norman S. Parker.)

provide for a cold or below freezing temperature. Whether it's sub-zero or not depends upon how the user wishes to set it.

The lower larger compartment has a liner which corresponds to and, so far as I can see, is substantially identical with the liner of Defendants' Exhibit 117. It seems to be shaped the same, so far as I can tell without making accurate measurements. It is a liner of the opening which is the same as the liner of the complete Admiral refrigerator which I am now pointing to.

I notice that on the front of the cabinet is a dial—movable or control dial marked "Warm" or "Off," "Colder" and opposite it in larger letters are the words "Moist Cold." Taking that in relation to the patent—the Morton patent in which I have been reading, and from statements in the service manual of the Admiral Dual-Temp refrigerator, Defendants' Exhibit 4-CC-3, I think it's beyond argument that this Admiral Dual-Temp refrigerator has also a moist cold compartment.

The Court: Go ahead.

Q. (By Mr. Cheatham): Mr. Parker, would you continue reading the elements of the Claim 2 on the Admiral refrigerator exemplified by the structure illustrated on Plaintiff's Exhibit [814] 9-A-1?

A. Continuing to read from Claim 2, after the part that was read in the question, are the words:

"Said refrigerator comprising a cabinet having a cooling compartment and a freezing compartment."

(Testimony of Norman S. Parker.)

A cooling compartment is the lower compartment of the showing of the Admiral refrigerator in Plaintiff's Exhibit 9-A-1. The freezing compartment is the upper compartment of that showing.

The claim further says:

"Thermal insulation around said compartments thermally insulating said compartments from each other and from the outside atmosphere."

The service manual and the description of the patent are clear and without destroying that box or taking it apart I think we could properly assume that there is insulation as shown—as omitted from the view in the Plaintiff's Exhibit 9-A of the Admiral box, and that this insulation surrounds both cooling compartments and also separates them.

The next statement in the claim is "a cooling refrigerant expander having heat-conducting surfaces within said cooling compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature above 32 degrees Fahrenheit while withdrawing heat from said [815] compartment."

The further statement: "Whereby air in said cooling compartment is cooled thereby to a temperature above 32 degrees Fahrenheit and is maintained at a humidity whose relative value is at least 100 per cent at 32 degrees Fahrenheit." That is a long statement.

To go back to the beginning of it, "a cooling refrigerant expander having heat-conducting surfaces within the cooling compartment." The transfer

(Testimony of Norman S. Parker.)

plate—the primary transfer plate about which I have testified and which is marked 104 on Plaintiff's Exhibit 8-A-1 is the only means for abstracting heat from the secondary or the moist cold compartment. Its heat transfer—its heat-conducting surfaces within the cooling compartment are the actual heat-conducting surfaces of the liner itself which conducts heat to the expander on the primary plate 104.

In other words, the entire secondary system with its inner liner surface exposed to the materials to be cooled in the moist cold surface is merely a heat transfer system for delivering the heat to be removed to the coil on the primary plate 104, and this heat-conducting surface is within the cooling compartment and abstracts heat from the cooling compartment and its area and its relationship to the capacity of the machine are such as is amply pointed out in the Admiral manuals that a moist cold is maintained and at that time air is maintained as sufficient humidity to provide a moist cold [816] compartment.

Now, the question of the definition of the language of the claim that the air should be maintained at a humidity whose relative value is at least 100 per cent at 32 degrees Fahrenheit is another way of saying that at the range of use which may be of the order of 38 to 42 degrees Fahrenheit the moisture will be sufficiently high so that if that air temperature were dropped to 32 degrees Fahrenheit the

(Testimony of Norman S. Parker.)

humidity would have a relative value of at least 100 per cent.

It's a long way of saying that a moist cold is maintained in the moist cold storage compartment.

The next limitation is a freezing refrigerant expander having heat-conducting surfaces within the freezing compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature well below 32 degrees Fahrenheit while withdrawing heat from said compartment whereby air in said freezing compartment is cooled thereby to a temperature well below 32 degrees Fahrenheit.

The structure or the part of the Admiral structure which responds to that limitation of the claim is, of course, the sleeve to which I am pointing in Exhibit 117-A, which is about its exterior in heat contact relation there with a system of ducts and cooling ducts through which the refrigerant is circulating at pressures which are effective to taking up heat out of the freezing compartment to maintain the freezing [817] compartment at a temperature well below 32 degrees Fahrenheit. And it is so described in the Admiral manual.

The next limitation is a single liquefying unit associated with said expanders and constructed and arranged to condense refrigerant expanded by heat extractor from both said compartments, the volatile refrigerant circulating through said expanders being the sole heat-extracting medium. The Admiral Dual-Temp has a single compressor condenser unit to which—to the suction to the low side of which

(Testimony of Norman S. Parker.)

flows the refrigerant which has been evaporated both in the coil or the duct which takes heat from the freezing compartment, and in that part of the primary expander which takes heat from the cooling compartment and no other means are shown for extracting heat from those two compartments.

There is but a single liquefying unit which performs that function for both compartments, and the volatile refrigerant which circulates through these two expanders is the only volatile refrigerant which takes heat to the compressor condenser unit, there to be discharged from the system before the refrigerant returns to continue its operation.

The final statement is "And a thermostat responsive to the temperature in one of said compartments controlling the operation of said liquefying unit." I should have said that there is a provision for a thermostat bulb on the outside of the sleeve at the top of Defendants' Exhibit 117-A, and [818] it is clear both from Mr. Morton's patent and from the showing of the manuals of Admiral that that thermostat is responsive to the temperature, for example, of the cold compartment, and that it controls the operation of the liquefying unit, the motor compressor condenser.

Q. (By Mr. Cheatham): In your opinion, does the Admiral refrigerator come within the terms of Claim 2 of the Bronaugh and Potter Reissue Patent 23,058?

A. In my opinion, it does.

Q. Would you make the same analysis with re-

(Testimony of Norman S. Parker.)

spect to Claim 1 of the Bronaugh and Potter Re-issue Patent 23,058?

A. I think there is no need to go through the various statements in the Claim 2 because they are all in Claim 1. I will merely mention the addition of statements in Claim 1. At Line 31, the following statement:

“Air in said cooling compartment having a substantially stable temperature of about 40 degrees Fahrenheit and having humidity whose relative value is at least 100 per cent of 32 degrees Fahrenheit.”

In the Admiral structure with the upper compartment operating as a freezing compartment and the lower compartment operating as a cooling compartment, the air in the cooling compartment can be kept at a temperature and normally is kept at a temperature somewhere in the neighborhood of 40 degrees [819] Fahrenheit.

Of course, I should say that whether it is precisely at 42 degrees Fahrenheit or a few degrees above or a few degrees below is a matter of adjustment. [820]

Assuming that it is kept in that range and since there is no frosting, refrigerating element, no frosting in the compartment, the air will be maintained at a humidity, if it is at 40 degrees Fahrenheit, which is such that a drop in temperature of the air to 32 degrees Fahrenheit would raise its humidity to a relative value, in my opinion, of at least 100 per cent. In other words, air at 40 degrees

(Testimony of Norman S. Parker.)

Fahrenheit will hold more moisture than air at 32 degrees Fahrenheit, and as the air drops in temperature it loses its ability to hold water, to hold moisture, and if it is maintained at a relative humidity of, say, 85 at 40 degrees Fahrenheit, if my memory is correct and there are of course tables to establish such matters, the relative humidity at 32 degrees Fahrenheit would be at least 100 per cent; therefore, that feature of the claim is also present in the Admiral structure, and the air in the Admiral cooling compartment will have those characteristics. The claim goes on to say that air in the freezing compartment having a temperature well below 32 degrees Fahrenheit. Of course, that will obviously be true if the freezing compartment operated, and is able to operate as a freezing compartment.

The Court: Mr. Cheatham, what claims do you say were infringed by the accused structures? [821]

Mr. Cheatham: All four of them, sir.

The Court: Claim No. 2 is your broadest claim, isn't it?

Mr. Cheatham: I believe it is.

The Court: Are you contending now that even though the accused structures may not infringe Claim No. 2 that they might infringe 1, 3 and 4; is that right?

Mr. Cheatham: No, sir; if they infringed Claim 2, they might not infringe 1, 3 and 4. If they infringe Claims 2 and 1, they might not infringe 3 and

(Testimony of Norman S. Parker.)

4. If they infringe Claims 2 and 4, they might not infringe Claims——

The Court: I thought if they infringed Claim 2 they would infringe all of the claims?

Mr. Cheatham: Not necessarily, sir, because there are other limitations in Claims 1, 3 and 4 which are not present in Claim 2.

The Court: So if they infringe Claim 1 they would obviously have to infringe Claim 2?

Mr. Cheatham: That is right, sir.

The Court: If they infringe Claim 3, they would have to infringe Claim 4?

Mr. Cheatham: Yes.

The Court: So you think it is desirable and necessary to go through each claim separately?

Mr. Cheatham: Just to extent that Mr. Parker would [822] emphasize the difference between the claims which are present in the claims.

The Court: Go ahead.

Q. (By Mr. Cheatham): Mr. Parker, does the Admiral refrigerator infringe the Bronaugh-Potter Reissue Patent 23,058 as you read?

A. In my opinion it does.

Mr. Byron: Of course, that is a conclusion of law. I object to that.

The Court: Yes. As I explained several times, Mr. Parker being a patent expert has the right to express his opinion. The jury does not have to agree with it, but he has the privilege of making that statement.

Mr. Byron: He cannot give a conclusion of law.

(Testimony of Norman S. Parker.)

He can say, "In my opinion, the accused device comes within the terms of the claims," but he cannot say that, "In my opinion, this is an infringement."

Mr. Cuninghame: I think that is what Mr. Parker is really saying.

The Court: It is just a question of semantics. In other words, perhaps he did not say it as technically correct as a patent lawyer would, but we all know that this is his opinion, and he thinks the structure is infringed.

Q. (By Mr. Cheatham): May I in order to have the record [823] straight state the question in this fashion:

In your opinion, does the Admiral refrigerator come within the terms of Claim 1 of the Bronaugh-Potter Reissue Patent 23,058?

A. In my opinion, it does.

Q. Would you repeat the same analysis with respect to Claim 4 of the Potter-Bronaugh Reissue Patent 23,058?

A. To save time, I will omit from Claim 4 the features or characteristics about which I have already testified and which I have stated in my opinion are present in the Admiral structure and will limit myself to the differences.

At the end of the claim is the limitation of a thermostat responsive to the temperature in the cooling compartment and controlling the on-off cycles of the liquefying unit, and the insulation around said cooling compartments offering less resistance to flow

(Testimony of Norman S. Parker.)

of heat thereto from the outside atmosphere than as does the thermal insulation of the freezing compartment to insure starting of said liquefying unit by heat flow into said cooling compartment during an off cycle of said liquefying unit before the temperature in said freezing compartment approaches a non-freezing value. Now, that Claim 4 therefore differs from Claims 1 and 2 in that it specifies what we might call differential insulation, and also specifies a thermostat which is responsive to the temperature in the cooling compartment. The [824] thermostat—considering that is a thermostat—the thermostat in the Admiral structure has a bulb which is on the outside of the freezing compartment and which therefore responds directly to the temperature of the freezing compartment, but that bulb is located close to a bend of the expander, and the expander carries refrigerant across and from the primary plate. There is not any doubt that there is a difference here between the operation of the Brough-Potter patent where you simply see a thermostat in the moist cold compartment. I notice, however, that Mr. Morton in his Patent 2,586,853 says——

The Court: Well, I think that that is not proper, Mr. Parker. If you are explaining the accused structure, you have got to give us the offending part in the accused structure and not in Mr. Morton's patent.

The Witness: No, the offending portion is in the accused structure, but what Mr. Morton says

(Testimony of Norman S. Parker.)

about how this structure works is a part of what controls me in my opinion. In other words, Mr. Morton describes the operation of the structure of the Admiral refrigerator and of Defendants' Exhibit 117-A.

The Court: It is your representation that this structure before you is the identical structure or at least operates identically with that described by Mr. Morton in his patent with reference to the feature about which you [825] are now testifying?

A. That is the opinion that I have. I am speaking now as a reader of this patent and not as a refrigerating engineer. I could be wrong, but, so far as I understand the patent, I understand the structure, the statement of the operation in the patent will apply to this structure.

The Court: If you are of the opinion that it is the same, go ahead.

The Witness: In Column 9 of the Morton Patent 2,586,853, starting with Line 33, I will read:

“Since, however, the thermostatic bulbs are placed in positions outside of the compartments themselves, that is, on the outer walls or adjacent the outer walls of the compartments, they reflect the temperatures of the circulating refrigerant as well as the temperature within the compartments. The system will cycle on and off until the temperature in the moist cold compartment and the temperature in the freezing locker are reduced to within the range desired.”

And so I take that statement to apply to this structure and to be a statement that as long as either

(Testimony of Norman S. Parker.)

of these compartments are calling for refrigeration they will get it.

Now, there are some contrary statements in [826] the service manual in the patent, and, in all frankness, I should say that the theory of the other side is going to be that the only response of the thermostat is to the temperature in the freezing compartment, and I am expressing the opinion based partly on my inspection of the system and partly on what Mr. Morton says in his patent and partly on the necessities of the problem, I am expressing the opinion that when the cooling compartment really needs refrigeration it is going to get it, and that to some degree and to an important degree the thermostat which operates the cycling system responds not only to the temperature needs of the freezing compartment but also to the temperature needs of the cooling compartment.

The Court: Mr. Parker, I might say now that I am going to permit Mr. Byron to interrogate you as an expert engineer because you have expressed opinion which go beyond that of a patent expert into the opinion of an engineering expert.

The Witness: No, my opinion as to why that had to be that way was I could not conceive as a user of electrical refrigeration for the last 20 years of anyone such as Admiral putting on the market a refrigerator which would have a moist cold compartment or any kind of storage compartment which would get so warm that the food would spoil, and

(Testimony of Norman S. Parker.)

unless there is some response to the temperature in the [827] moist cold compartment I do not see how the machine can operate. I do not express an opinion as an engineer. I am not an engineer, and I am expressing that opinion on the basis of my own use for 25 years of electric refrigeration.

The Court: Go ahead.

The Witness: I was discussing also in the claim the thermal insulation. The thermal insulation, the differential, I do not offhand see in the Admiral structure. I believe that it is indicated in the cover by a differential size of sleeve in the cover of the Admiral circular or service manual, Plaintiff's Exhibit 4-CC-3, but it does show up very clearly in the Amana box, 10-B, where you can see the difference in thickness of insulation with thicker insulation in the freezing compartment (indicating Exhibit 10-B). I understand indirectly that there is some stipulation in the case that the operation of the Amana and the Admiral boxes are substantially the same, but if I am correct in that assumption and if there is differential insulation used by the Admiral box, as I understand that there is, why, then it would fall within the terms of the passage that I have read at the end of Claim 4.

Mr. Byron: I would like to know whether or not the witness is testifying that there is differential insulation or there is not. [828]

The Witness: In the box?

Mr. Byron: In either one. You say you assume. Is there?

(Testimony of Norman S. Parker.)

The Witness: I don't know whether or not there is a differential insulation in the Admiral refrigerator—let's get the exhibit number, Plaintiff's Exhibit 10-A—I do not know whether or not there is differential insulation in it. I am satisfied from looking at Plaintiff's Exhibit 10-B, the Amana refrigerator, that there is.

The Court: I think your testimony is clear on this. He says he finds it in the Amana but not in the Admiral because he does not know whether it is in the Admiral or not.

Q. (By Mr. Cheatham): Then, in your opinion, does the Amana refrigerator come within the terms of Claim 4 of the Bronaugh-Potter Reissue Patent 23,058?

A. Yes; if my understanding is correct that the parties have stipulated that the two refrigerators operate substantially the same.

Mr. Byron: Operation and construction are two different things, your Honor.

Mr. Cuninghame: If your Honor please, I have been assuming that was all settled in our pre-trial order that Amana or the Dual-Temp box could be taken as equivalents for purposes of this case. Am I wrong in that assumption? [829]

The Court: In what item is the stipulation contained?

Mr. Byron: We do not care anything about the proportional insulation anyhow, but I am just saying they are not proving a case of infringement even on that point.

(Testimony of Norman S. Parker.)

Now, what the stipulation was was this: That if the Admiral infringed a valid claim of the patent in suit, so does Amana; but if the Admiral does not infringe, Amana does not. Now that is the stipulation.

The Court: If it is shown, in other words, that Admiral infringes any of the four claims as made, then the jury can find that the Amana infringes?

Mr. Byron: Yes.

The Court: Does the stipulation cover the fact that an element may be present in Amana that is not present in Admiral?

Mr. Byron: No, it does not.

Mr. Cuninghame: If your Honor please, there is no testimony that relative or proportional insulation is not present in the Admiral box. The testimony, as I understood it, was that Mr. Parker did not now know, and I think it is up to us to complete the testimony.

The Court: Very well. In other words, as part of your case in chief you will have to show that the Admiral has an offending type of insulation in order to show the infringement of Claim No. [830] 4?

The Witness: I have testified that I do not know whether or not there is differential insulation in the Admiral box.

The Court: I think that the witness should be permitted to express an opinion that, assuming there is such differential insulation, does he in his opinion believe that the claims are infringed.

(Testimony of Norman S. Parker.)

Q. (By Mr. Cheatham): Assuming that there is such differential insulation in the Admiral refrigerator, would it be your opinion that Claim 3 of the Bronaugh-Potter Reissue Patent 23,058 is infringed? A. That would be my opinion.

The Court: Would your answer be the same for Claim 4, making the same assumption?

The Witness: As to the Claim 4, making the same assumption, it would be my opinion that the Admiral box would be within its terms.

The Court: That covers it as far as an expert is concerned. Do you have any other testimony?

Mr. Cheatham: Yes, your Honor.

The Court: About how long?

Mr. Cheatham: I have perhaps 15 or 20 minutes, perhaps a half-hour.

The Court: Go ahead.

Q. (By Mr. Cheatham): Mr. Parker, are you familiar with the [831] patent to Anderson, No. 1,439,051?

A. I have read it several times.

Q. I refer you to Plaintiff's Exhibit 16-B and ask you if that is an enlargement of a portion of the patent for Anderson, 1,439,051? [832]

A. Plaintiff's Exhibit 16-B is an enlargement of Figure 1 of Anderson Patent 1,439,051.

Q. (By Mr. Cheatham): What, if any, teaching in the Anderson patent is there maintaining a moist cold atmosphere in the cooling compartment?

A. There is no discussion or no statement in

(Testimony of Norman S. Parker.)

Anderson relating to the moisture content of the air in any part of the device.

Q. What, if any, teaching is there in the Anderson patent 1,439,051 as to a nonfrosting coil in the cooling compartment?

A. Nothing is said in the patent about a nonfrosting coil so far as I can remember.

Q. What, if any, teaching is there in the Anderson Patent 1,439,051 of means for preventing frosting in the cooling compartment?

A. Nothing is said about it.

Q. What, if any, teaching is there in the Anderson Patent 1,439,051 as to the disadvantage of frost accumulation on the coil in the cooling compartment?

A. There is no discussion of it in the Anderson patent at all.

Q. What, if any, teaching is there in the Anderson Patent 1,439,051 as to proportional insulation?

A. You mean differential insulation?

Q. Differential insulation. [833]

A. Nothing in the patent about it. The insulation about both compartments, so far as I can tell from the drawing, is of the same thickness and there is no discussion in the patent of any variation or no teaching of any variation of the thickness of insulation.

Q. Is there a frosting coil in the cooling compartment of the Anderson patent 1,439,051?

A. Yes. In my opinion it would frost some.

(Testimony of Norman S. Parker.)

The Court: I didn't hear what you said.

The Witness: It will frost to some degree or to some distance in the upper box. The coil or the pipe which, I believe, is numbered 41, goes up into the upper box. In my opinion, it would frost.

Q. (By Mr. Cheatham): Do you have any knowledge as to whether the coil on the Anderson Patent frosts?

A. Well, I know that Mr. Anderson said that it did, the inventor.

Mr. Byron: Objected to as hearsay.

Mr. Cuninghame: If your Honor please, I think we had better ask the witness a few more details about that, but my understanding is that this was—the occasion was the hearing of the testimony of Mr. Anderson in court on this very subject.

Mr. Byron: We weren't there. We weren't there to cross-examine.

Mr. Cheatham: Mr. Parker—— [834]

The Court: Objection is sustained.

Mr. Cheatham: Your Honor, we have a long hypothetical question and I want to know if the witness' qualifications to answer the question will be stipulated by the opposing side, or shall we——

The Court: We have already stipulated Mr. Parker's qualifications. He is a patent expert.

Do you have a copy of the question that you are about to propound to him?

Mr. Cuninghame: Yes, sir.

The Court: All right.

Now, will you give one to Mr. Byron and let

(Testimony of Norman S. Parker.)

him take a look at and while the question is being asked if you have an extra copy—you have no extra one? I will listen.

Mr. Cuningham: Yes, I think we have.

The Court: Mr. Parker, are you well-acquainted with the question that is going to be propounded to you?

The Witness: I have heard it read once.

The Court: Well, if that's all you have read it you had better take another copy and read it as they are reading it to you.

Mr. Cuningham: I think he is just a little modest, your Honor. He has heard parts of it at different times.

The Court: Is this your last question to Mr. Parker?

Mr. Cheatham: I have just discovered that I skipped one question, and then I want to ask him a question about [835] his interest.

The Court: About what?

Q. (By Mr. Cheatham): Mr. Parker, have you read the patent of Morton, 2,586,853, which is in the book of Admiral patents, Exhibit 19, and it is marked 19-CC?

A. May I see? Have you got a copy of it?

Q. Which patent relates to a gasket for the door of the refrigerator?

(Bailiff hands the document in question to the witness.)

(Testimony of Norman S. Parker.)

A. Yes, I have read this patent, Morton 2,586.-853. Refrigerator door gasket.

Q. (By Mr. Cheatham): Mr. Parker, assume that a valid hypothetical question——

The Court: Just one moment. Ask him all the questions except this one because I want to go over this question with you and with counsel before it's submitted to the witness.

Q. (By Mr. Cheatham): Mr. Parker, do you have any interest in the outcome of this litigation?

A. No, none whatever.

Mr. Cheatham: That is all, subject to the question which your Honor has.

The Court: Ladies and gentlemen, it is now almost 4:15. There is one long question which will be propounded to Mr. Parker tomorrow, after which Mr. Parker will be subjected [836] to cross-examination. As you know, we will have testimony tomorrow and Wednesday after which we will recess until the following Monday. I know you have all followed the admonition not to discuss this case with anyone else or come to a conclusion as to how the case may be decided, and I urge you to continue the good work.

Now, you are excused until 9:30 tomorrow morning.

(Whereupon the jury was excused and the following proceedings were held out of the presence of the jury:)

The Court: Mr. Byron, have you read this question?

Mr. Byron: No, I haven't. I will do so now.

The Court: I might say right now that I hoped that we would be able to agree on the question to be propounded to Mr. Parker. It's 4:15 now and it seems to me it may take some little time; however, I do want to suggest that perhaps Mr. Byron and Mr. Cuninghame can get together and agree on some of the elements of the question, and if there is any disagreement then I would be willing to pass upon it tomorrow morning. But I may be incorrect in this, but I can't see on the question of a fair royalty the relevancy of the fact that this was originally tried before a Court and then reversed and the reissue patent granted and go into the whole history of it, and I certainly don't see the relevancy of the fact that Admiral charges 2½ per cent for a rubber gasket that [837] they are manufacturing. That may be more or less than what should be charged for a refrigerator.

The question of the impact which this refrigerator may have made on the market, I think, probably is relevant. It appears to me that what they are trying to show is that this was a fundamental and basic invention. Now, that may be true or it may not be true, but I don't think it goes to the propriety or impropriety of the question. That is something that can be brought out on cross-examination by your other witnesses.

Of course, if you destroy the basis of the witness' answer, that's just part of the case, but—so I am merely saying that I think the history of the invention is applicable and what impact it made on

the market is applicable, but I do not see the relevancy of the court proceedings nor of the gasket that was charged by Admiral.

Now, it may very well be that you can show that for some similar patents, General Motors or General Electric, that they pay 10 per cent or some other figure. The only thing that disturbs me is, aren't we getting into a situation in which we are going to have to evaluate the fundamental character of these other patents upon which royalties are made?

Now, I assume that some of you may have had experience in propounding similar questions to witnesses in [838] other cases; however, there is this one difference: I think both of you men have confined your activities primarily to trials before the Court, and that which may be proper before a Court or that which may be received by a Court doesn't necessarily mean that that same testimony should be submitted to the jury, because theoretically, at least, the judge is in a position to separate the wheat from the chaff and not be affected by hearsay or things which may only have a remote connection to the problem. Therefore, in a hypothetical question propounded to a jury, I am going to have to rule much more strictly than if that same question was propounded to me sitting as the Court.

With this general background I hope, Mr. Cunningham and Mr. Cheatham, you will be able to talk and arrive at an agreement with Mr. Byron. I will be down here tomorrow morning not later than

9:00 o'clock and if you want to see me at that time I will be glad to hear you.

Mr. Cuninghame: All right.

The Court: Recess till tomorrow morning at 9:30.

(Whereupon, at 4:20 o'clock p.m. an adjournment was taken until 9:30, Tuesday, November 22, 1955.) [839]

Tuesday, November 22, 1955, 9:20 A.M.

(Proceedings herein were resumed, pursuant to adjournment, as follows:)

(After discussion between Court and counsel in chambers the following proceedings were had on the record:)

The Court: Do you want to specify the reasons why you believe that the question is improper?

Mr. Byron: I think we will bring that out on cross-examination.

Mr. Cuninghame: I think we should make a record now, your Honor.

Mr. Ramsey: He wants you to make your objection to the question if you want to make your record.

Mr. Byron: Oh, yes; we make our objection now to the hypothetical question because there are assumptions stated therein that have not been proven.

Mr. Cuninghame: Specify them.

The Court: We want specificity here. In open court we are going to permit you to make the objection in the manner which you have just made.

Mr. Byron: It has not been established that the accused device has a cooling refrigerant expander having heat-conducting surfaces within said cooling compartment and constructed and arranged to maintain its heat-conducting surfaces at a [840] temperature of above 32 degrees Fahrenheit.

(Discussion off the record.)

The Court: I did not think the matters Mr. Byron was putting in had any relevancy to the issue involved. If you want to make your record, you may, but not on the question of the validity of some other patent.

Mr. Byron: All right. The objection is on the basis that it has not been established that the refrigerators covered by the Potter patent were not the first to provide a single compact unit for household use, a compartment for the preservation of frozen food in a moist cold atmosphere above freezing temperature, and a separate compartment for freezing and preserving other foods safely for long periods of time in frozen state at temperatures substantially below the freezing temperature. Also, the record does not show that such Potter refrigerators for the first time brought refrigeration of the kind claimed to the home—the first time, that is.

We object also to the statement that the Potter refrigerator for the first time provided a household unit wherein without the use of covered pans the moisture of the food stayed in the food instead of being dried out.

We also object on the ground that the hypothetical question states that the Potter refrigerator elim-

inated a frosting and defrosting of the chilling element in the [841] compartment for the preserving of foods at temperatures above freezing.

We also object on the ground that the statement in the question is that such Potter refrigerators constitute the first major improvement in refrigeration in many years.

We also object to the statement that the Potter refrigerator—that in such Potter refrigerators the transference of odors from one kind of food to another is minimized.

We also object that such Potter refrigerators call question that the Potter refrigerators constitute a brand new idea in refrigeration and that the Potter refrigerator is just not a new model.

We also object that such Potter refrigerators possess such advantages that they are sold largely as replacements for conventional refrigerators.

Object to the statement in the hypothetical question that such Potter refrigerators afford larger possibility of profit per unit to the manufacturer or his distributors and that said refrigerators have the retail value based upon any Potter invention and that they are not more profitable than the conventional refrigerators of comparable size.

We also object to the statement in the hypothetical question that the conventional refrigerators which had been produced in the United States in and prior to 1931 dried out [842] the natural moisture of the foods stored therein because of the frosting of the chilling element within the food

chamber and that said fact had existed from the beginning.

The Court: I think I am getting more than I bargained for. I asked you to specifically state it, but I did not expect such great specificity. Do I understand that you are objecting to these questions on the ground that there is inadequate evidence upon which to predicate these specific items to which you object?

Mr. Byron: Yes, sir; I do.

The Court: Can you not summarize that last part?

Mr. Byron: Also, that they are argumentative and totally improper in these assumptions.

Mr. Cunningham: May I add, your Honor—and I hope Mr. Byron is including certain evidence that he knows all about that is in deposition form which we have agreed can go in and which is not at the moment before the Court, is not in the record.

The Court: Of course, that is true. He can assume facts which are not yet in evidence and which he knows will be introduced in evidence.

Now, there is this last paragraph on Page 2 which you were starting on. Can you not summarize that?

Mr. Byron: Well, I object to all of the positive statements made therein with respect to the so-called advantages, [843] material, profitwise, and everything else in connection with the refrigerators of the Potter type.

Mr. Ramsey: Also, on the ground that there is no evidence of commercial success of any refriger-

ator made by or under the reissue patent, nor in fact, any sale thereof.

Mr. Cuningham: Now, if your Honor please, if that completes the objection I would like to ask your Honor's permission by this witness on his direct examination before he goes into this hypothetical question to have him tell in his own words, of course, that he was the plaintiff's expert in the Stewart-Warner case; that he read the original claims on the Stewart-Warner device, and that he knows that device, and I would like to have him state the—at least some of the differences between that device which is exemplified by Stewart-Warner Exhibit 111 at Page 2534 of the Stewart-Warner record and the devices upon which the Admiral Corporation and the Amana, upon which he has read the reissue claims.

The purpose, sir, of that request is in support of the statements that I have made in the record at least once, and I think maybe more often, to the effect that the Admiral Corporation came much closer to the Potter patent and the Potter invention, both the reissue and the original, than did the Stewart-Warner device which was held to [844] infringe the original claims. I think that is vital, not just relevant, on the issue of the willfulness and deliberate character of the Stewart-Warner infringement. They, with full knowledge and with the aid of engineers having full knowledge from the Stewart-Warner Company and with the aid of Mr. Glen Nutley, as the testimony will show, concocted and had the temerity to use these patent claims

more than did the Stewart-Warner Company in many, many respects, and I think the record should show so, and I think the witness who is now on the stand is the best qualified witness to give that evidence.

Mr. Byron: That has no place in this case at all.

The Court: I am not going to permit it to go in, and I have already announced to you, Mr. Cunningham, that I will not permit such testimony.

Mr. Cunningham: This, your Honor, is not an effort to retry the Stewart-Warner case. It is an effort to get of record the diagrammatic showing of the Stewart-Warner Exhibit 111.

The Court: Mr. Cunningham, from the minute you got into this case you have been trying to get that Stewart-Warner case in and the fact that the jury held in your favor and sustained the validity of that fact, and you are not going to get it in here, and the minute you do you are going to get a mistrial in this case. I am telling you. [845]

Mr. Kolisch: What he has just said, this could only go to the issue of trebling damages, which is purely a Court function.

The Court: Perhaps we can do that outside the presence of the jury.

Mr. Cunningham: Very well. If your Honor please, may I make one further request. You may recall practically the last words of testimony of Mr. Parker were to the effect that he was unable to testify as to the relative or proportional insulation of the Admiral Dual-Temp refrigerator. I would like to interrupt his testimony the first thing this

morning for just one or two questions, and I give notice of my request that Mr. Ray Bommer, the chief engineer of Admiral, who is in attendance here at the trial, should take the stand and testify about it.

The Court: I told you how to ask that ququestion, and you did follow my advice. You have got it in evidence now. You do not need it at this time.

Mr. Cuningham: Well, sir, I would like to call him before Mr. Parker gets away from town. He is leaving tonight. He will be back on Monday, but he has got some business to attend to in Chicago.

Mr. Byron: The other witness will be here Monday, too.

The Court: All right; that is all. [846]

(The following proceedings were had in open court in the presence of the jury:)

NORMAN S. PARKER

a witness in behalf of the plaintiff, thereupon resumed the stand and, having been previously duly sworn, was examined and testified further as follows:

Direct Examination

(Continued)

By Mr. Cheatham:

Q. Mr. Parker, assume that a valid hypothetical patent alike in all respects to the Bronaugh and Potter patent No. 2,056,165, and issued on an application filed in 1931 and reissued on December 14, 1948, as Reissue No. 23,058, which hypothetical re-

(Testimony of Norman S. Parker.)

issued patent contains the claims of Reissue Patent No. 23,058 in suit and which you have read to the jury; further assume refrigerators embodying the function and structural features of such hypothetical patent and such claims, and that such refrigerators were placed on the market in 1932 and were the first to provide in a single compact unit for household use a compartment for the preservation of fresh foods in a moist cold atmosphere above freezing temperature and a separate compartment for freezing and preserving other foods safely for long periods of time in frozen state at temperatures substantially below the [847] freezing temperature; that such refrigerators for the first time brought refrigeration of a kind claimed to the home; that such refrigerator for the first time provided a household unit wherein, without the use of covered pans, the moisture of the foods stayed in the food instead of being dried out; that such refrigerators eliminated frosting and defrosting of the chilling element in the compartment for the preservation of foods at temperatures above freezing; that such refrigerators constitute the first major improvement in refrigeration for many years; that in such refrigerators the transference of odors from one kind of food to another is minimized; that such refrigerators constituted a brand-new idea in refrigeration, not just a new model; that such refrigerators proposed such advantages that they were sold largely as replacement for conventional refrigerators; that such refrigerators afford larger possibility of profit

(Testimony of Norman S. Parker.)

per unit to the manufacturer or his distributors and that such refrigerators have a retail value ranging from \$359.50 to \$449.50 for Amana and \$389.95 to \$529.95 for Admiral, which is substantially greater than conventional refrigerators of comparable size; and assume further that the conventional refrigerators which had been produced in the United States in and prior to 1931 dried out the natural moisture of the foods stored therein because of the frosting of the chilling element within the food chamber, and that said fact had [848] existed from the beginning of electrical refrigeration during which time a substantial amount of household electric refrigerators were produced in the United States and that the largest manufacturer of household refrigerators in the United States which maintains a staff of trained competent specialists in various branches of engineering, devoting their entire time to experimental work for the further development and improvement of the company's products, which include items in addition to household electric refrigerators presented in 1930 as its solution of the problem of food dehydration in household refrigerators a covered pan having a small cubicle content as compared with the cubicle content of the food chamber in the conventional refrigerators; and that the second largest manufacturer of household refrigerators in the United States, which also maintained a comparable staff of trained competent specialists attempted unsuccessfully at about the same time to place on the market two conventional refrigerators fastened to-

(Testimony of Norman S. Parker.)

gether to minimize the same dehydration problem by operating said refrigerators simultaneously at different temperatures; assume further that a patent alike in all respects to Admiral's Patent No. 2,636,228, Exhibit 19-CC, covering a rubber gasket for a refrigerator door had since 1952 been licensed to large rubber and refrigerator companies at a royalty of 2½ per cent of the manufacturer's sales price; [849] assume that in the years 1949 to 1953, inclusive, there were sold in the United States a quantity up to 165,000 such refrigerators covered by such hypothetical patent and the claims stated above; assuming these facts to be true, have you an opinion based upon your experience as to what would be a reasonable royalty to be paid for the nonexclusive rights to manufacture and sell such refrigerators in the United States during such period?

Mr. Byron: May it please the Court, I have made my objection of record in the conference we had in Chambers just before coming into this court this morning, but I will not go into great detail on that, but I make an objection to this hypothetical question on the ground that it assumes facts not proven, it's argumentative, and entirely improper.

The Court: All right. I am going to permit the witness to answer the question.

Mr. Parker, do you have an opinion?

The Witness: Yes, your Honor, I have.

The Court: All right.

Mr. Cuninghame: If your Honor please, there

(Testimony of Norman S. Parker.)

were some revisions, as you know. I would like to show Mr. Parker what revisions have been made. May I hand him my copy for that purpose?

The Court: Well, there have been no revisions, Mr. Cuningham. I permitted you to do it exactly the way you [850] did except some history which I regarded as irrelevant.

Mr. Cuningham: Well, if your Honor please, I think you didn't understand me. I didn't make myself clear. There were certain minor revisions. May I show them to your Honor?

The Court: All right. Show them to the witness.

(Whereupon Mr. Cuningham confers with the witness.)

Q. (By Mr. Cheatham): Please state your opinion, Mr. Parker.

A. On the basis of the assumption——

Mr. Cuningham: Wait. You didn't get an answer, did you?

The Witness: On the basis of the assumptions of this hypothetical question I would express my opinion that a royalty of anything less than 10 per cent would be inadequate.

Q. (By Mr. Cheatham): 10 per cent of what, Mr. Parker?

A. 10 per cent of the net sales price.

Q. The net sales price of whom?

A. Received by the manufacturer.

Q. And what, in your opinion, is a reasonable

(Testimony of Norman S. Parker.)

royalty to be paid for such a nonexclusive right to manufacture and sell?

A. I would say that 10 per cent of the net to the manufacturer is a fair royalty.

Mr. Cheatham: That is all.

The witness is yours.

The Court: All right. That completes the direct examination of Mr. Parker. [851]

Mr. Byron, are you going to interrogate Mr. Parker?

Mr. Byron: Yes, sir.

The Court: Go right ahead.

Cross-Examination

By Mr. Byron:

Q. First I wish to place a very simple question, and I am going to refer to Plaintiff's Exhibit—Defendants' Exhibit 117, which discloses or shows the cooling chamber of the accused Admiral refrigerator. We have here the cooling chamber. I am inserting the pointer within it.

The Witness: Well, your cooling liner——

Q. Well, the cooling compartment. I am speaking about the claim now. That is the cooling compartment, is it (indicating)?

A. Well, in the proper sense the compartment is the actual space which is refrigerated. Of course, that would include anything within the insulation.

Q. Let's get down to brass tacks now. If I put

(Testimony of Norman S. Parker.)

this envelope in that compartment it is in there, isn't it?

A. It certainly is in the cooling compartment.

Q. Now, it's not outside the cooling compartment? A. Correct.

Q. All right. Now, then, how do we determine the volumetric capacity or the volume of the cooling compartment? We do it, do we not, by getting the dimension from wall to wall and [852] from the rear wall to the front?

A. That's right. That defines your storage space.

Q. That's right. That is your storage space. And that storage space is the space in which you cool the food, is it not? A. That's right.

Q. And the same thing is true with respect to the freezing compartment shown in Defendants' Exhibit 117-A, correct? A. Correct.

Mr. Byron: Now, I would like to have the two enlarged charts, one showing the patent office drawings of the reissue patent in suit, and the other the enlarged drawing of one figure of the Anderson patent.

(Whereupon the exhibits were moved to the better view of the jury.)

Q. (By Mr. Byron): Mr. Parker, we have before us Plaintiff's Exhibit 16-A, showing an enlargement, the patent office drawings of the patent in suit, and Plaintiff's Exhibit 16-B, an enlargement of Figure 1 of the Anderson patent, and I

(Testimony of Norman S. Parker.)

wish to compare these two element for element with respect to certain parts or elements. Now, then, the patent in suit has a cabinet, has it not, represented primarily by the reference character 10?

A. Right.

The Court: One second. [853]

Mr. Cuningham: Objection, if your Honor please. This is outside the scope of the direct.

The Court: Objection overruled.

Q. (By Mr. Byron): Your answer was Yes?

A. Yes.

Q. The Anderson patent shows a cabinet represented generally by the reference character 9, correct?

A. Right.

Q. The Potter patent shows a cooling chamber 14?

A. Yes.

Q. The Anderson refrigerator shows a cooling chamber 6?

A. Yes.

Q. The Potter patent shows a freezing chamber—now, you can take your choice here as plaintiff wants it.

Mr. Cuningham: Objection, your Honor.

Mr. Byron: The freezing chamber——

The Court: What is the matter?

Mr. Cuningham: I object to that “you can take your choice here as plaintiff wants it.” I object to the characterization of his answer before he gives it. I ask that the question be stricken.

The Court: Are you asking about 12 or 13?

Mr. Byron: Well, that is the question. Both are freezing compartments and counsel made some ob-

(Testimony of Norman S. Parker.)

jection because when I was up here before I pointed them out to him, and he said [854] I should have pointed at one, and I pointed at one and he said I should have pointed at two.

Mr. Cuninghame: Objection. Move to strike it.

Mr. Byron: Now, my question is this. I will rephrase the question.

Q. The patent in suit has a freezing compartment 12, has it?

A. That is a freezing compartment, yes.

Q. And it has a freezing compartment 13, has it?

A. - Yes.

Q. Now, then, the freezing compartment 12 has surrounding it a freezing coil 22, has it?

A. Yes.

Q. And then whatever reduction in temperature in the freezing compartment 13 there is is caused through the freezing coil 22, is it not?

A. Yes.

Q. Now then, referring to Anderson, Anderson has a freezing compartment 7, has it not?

A. Yes.

Q. And he has a series of coils in his pipe which receive ice trays 37, is that correct?

A. Correct.

Q. And the water in those ice trays, the water is frozen by virtue of the cooling effect of the refrigerant in the freezing coil, is that correct? [855]

A. Right.

Q. And the chamber as a whole, 7, is cooled

(Testimony of Norman S. Parker.)

through the action of the volatile refrigerant passing through the freezing coil 37. That's correct?

A. Correct.

Q. Now then, the Potter reissue patent has a machinery compartment in the bottom of the cabinet, is that right? A. Correct.

Q. And likewise, Anderson shows machinery in the bottom compartment 8? A. Right.

Q. Now, I use machinery broadly because I don't think it's necessary now to go into detail. We know that in each instance there is a motor driving a pump and the ultimate effect is to draw gas from the system and compress it and condense it so that it will be in condition to go through the cycle again? A. Correct.

Q. And that is the same in both cases?

A. Correct.

Q. Now, leading from the compressor mechanism, the liquefying unit, we will say, in the Potter patent, there is a coil 24, is that correct?

The Court: I think it might be well for Mr. Parker to go down there and stand by you.

Mr. Byron: I think it would be a good idea. I will be [856] in good company.

(Whereupon the witness leaves the stand.)

The Witness: May I have that question again?

(Last question read.)

The Witness: Correct.

Q. (By Mr. Byron): And that coil or pipe 24

(Testimony of Norman S. Parker.)

leads to the freezing coil 22 in the Potter arrangement. Is that correct?

A. Yes; through a reduction valve.

Q. I will get to that. It leads to the freezing coil?

Mr. Cuninghame: Objection, your Honor. I think he should be allowed to finish his answer.

The Court: He finished it.

Q. (By Mr. Byron): Now, in the Anderson arrangement there is a pipe 32 leading from the compressor condenser set to the freezing coil 34, correct? A. Correct.

Q. Now then, the freezing coil is shown at 34 in the freezing compartment 7 in Anderson?

A. Yes.

Q. And as the freezing coil 22 in Potter is shown in the freezing compartment 12 of—or, say, combination 12-13 of the Potter patent. A. Yes.

Q. Now then, interposed in the connection between the motor compressor condenser set in the patent in suit—let me [857] rephrase that. Interposed between the motor compressor condenser set and the freezing coil 22 in Potter there is an expansion valve 23, is that right? A. Yes.

Q. And in Anderson interposed between the compressor condenser set and the freezing coil there is an expansion valve 33? A. Yes.

Q. And then in the Potter patent in suit there extends from the freezing coil 22 this same pipe or conduit or coil which passes into the coil 25, is that correct? A. That is correct.

(Testimony of Norman S. Parker.)

Q. And that is in the cooling compartment 14?

A. Yes.

Q. And likewise, in the Anderson patent the freezing coil in the freezing compartment 7 is connected to the cooling coil 41 and 40 in the cooling compartment 6 of Anderson? A. Correct.

Q. Is that correct? A. Yes.

Q. Then in the patent in suit the refrigerant—or, there is a connection from the cooling coil 25 back to the compressor set, is there not?

A. Yes. [858]

Q. And, likewise, there is a connection from the cooling coil portion 42 in Anderson back to the motor compressor set? A. Yes.

Q. Now, then, the cycling in both cases is the same, is it not; that is, from the motor compressor condenser set through the freezing coil, through the cooling coil, and back to the compressor condenser set; that is correct? A. Yes.

Q. And the same thing is true in Anderson?

A. Yes.

Q. The freezing coil 22 in Potter is in series with the cooling coil 25 in Potter; is it not?

A. Yes.

Q. By that I mean, let us say that we have two sections of hose that we are hooking up to the tap-pet or the faucet in our yard. We take the one section and hook it up to the faucet and then take the second section and hook it onto the first section. Those two sections, then, are in series; are they not? A. In series, in series.

(Testimony of Norman S. Parker.)

Q. In the same sense, the coils, freezing coil 22 and the cooling coil 25 in Potter, are in series?

A. That is right.

Q. Likewise, the freezing coil 34 in Anderson and the [859] cooling coil 40 in Anderson are connected in series? A. That is true.

Q. The refrigerant used in the Potter system and in the Anderson system is a volatile refrigerant, isn't it? A. That is right.

Q. And a volatile refrigerant is what?

A. A volatile refrigerant is a refrigerant which will volatilize or evaporate upon proper pressure drop.

Q. For the purpose of——

A. Abstracting heat.

Q. From a freezing compartment, a cooling compartment? A. That is right.

Q. They are the same in the two cases, in the Potter case and in the Anderson case?

A. In that sense, yes.

Q. Now, then, in the Potter patent there is insulation between the machine compartment 11 and the freezing, combined freezing compartment 12-13, and between the freezing compartment and the cooling compartment 14 and around the top and the sides of the refrigerator shown in Potter; is that correct? A. That is true.

Q. And the same thing is true in the Anderson patent, is it not? A. Yes. [860]

Q. Now, then, in the Potter arrangement there

(Testimony of Norman S. Parker.)

rator in the food storage compartment. I do not think it is proper to say that his improvement over the art consisted merely in making that change, since a finned coil or a coil of that type was already old at the time that Bronaugh and Potter were working.

Q. What I am trying to get at is this: Potter shows one type of coil 25. You say it is a finned coil, 25? A. Right.

Q. And Anderson shows a coil 40 which does not have fins; that is correct, is it?

A. That is correct.

Q. It is by virtue of the fact that Potter provided fins on his coils that he prevented dehydration of food in the food compartment; that is correct, isn't it? A. That is correct.

Q. And so the improvement for the preventing of the dehydration was, in Potter was to provide the coil 25 with fins?

A. That is the change he made.

Q. All right. Then if the cooling coil 40 in Anderson [863] were provided with fins, he would accomplish the same result, would he not?

A. He could have.

Q. Yes, I say he would have if he put fins on it?

A. If he did, yes.

Q. That is right. Now, you have stated that finned coils were old at that time, at the time Potter came into the field? A. They were.

Q. I know you might have in mind the Larkin patent. You may have something else in mind that

(Testimony of Norman S. Parker.)

you knew of in actual operation because of your extensive knowledge in the refrigeration field.

A. Well, I am familiar with the Larkin patent, but I have also seen other finned coils, of course.

Q. Long before, or at least before?

A. Before, shall we say.

Q. Yes, before Potter? A. That is right.

Q. For the same purpose of absorbing heat?

A. Finned coils are used to absorb heat; correct.

Q. That is right; and let us refer to this Larkin patent.

(Discussion off the record.)

Mr. Ramsey: May we ask that the Defendants' Exhibit 106, which is the Larkin patent, be admitted? [864]

Mr. Cuningham: I object to it, your Honor, entirely outside the scope of the direct.

The Court: What is that exhibit?

Mr. Ramsey: That is the Larkin patent that the witness is referring to.

Mr. Cuningham: I have no objection to its correctness or authenticity, but I think it is the wrong time to get into that prior art. That is not part of plaintiff's case.

Mr. Byron: It is part of plaintiff's case, if you please; Bronaugh talked about it, talked about buying a Larkin coil and putting it into the Potter refrigerator, and I think we ought to identify it.

Mr. Cuningham: If your Honor please, this all comes in under the alleged invalidity of the patent

(Testimony of Norman S. Parker.)

is a thermostat 31 in the upper compartment or cooling compartment 14; that is correct?

A. That is correct.

Q. You know that there is a thermostat in the upper or cooling compartment 6 of Anderson; you know that?

A. It is mentioned in the specifications, yes.

Q. Well, that means it is there?

A. It is there.

Q. That is right. It is there just as much as it is in Potter? A. True.

Q. The function of the thermostat in Potter is to start and stop the motor for setting up the operation of the system; that is correct?

A. That is correct.

Q. And the same function, the same thermostat in Anderson does exactly the same thing, doesn't it?

A. Exactly.

Q. Now, then, the elements that we have mentioned in common here, and I go no further than that, element for element, they are all old in Anderson; that is correct, isn't it? A. That is true.

Q. Anderson is about twelve or thirteen years earlier than Potter; that is correct? [861]

A. Yes.

Q. Well, now, their being all old elements, the elements that I have mentioned all being old, then the grouping of elements—call it a combination of elements if you will—is an old combination of old elements, is it not, insofar as the parts I have mentioned?

(Testimony of Norman S. Parker.)

A. So far as you have mentioned them, yes.

Q. Now, then, what improvement Potter is supposed to have made here is an improvement in creating, or rather preventing frosting of a coil in the cooling compartment 14, for preventing dehydration of the air and food in that compartment. The improvement he made there was in that feature, in improving that coil, was it not? In other words, how does the coil in Potter differ from the coil——

Mr. Cuninghame: Your Honor, objection; I think he should ask one question, not five or six.

Mr. Byron: I think there were two, but I was just trying to clarify. I will rephrase it, if you desire.

The Witness: May I have the question read?

(Pending question read.)

Mr. Byron: I will rephrase that if you desire.

The Witness: That is a double-barreled question.

Mr. Byron: I will strike that question and try to simplify it.

Q. Then the change which Potter made over Anderson to [862] prevent dehydration of food and air in the cooling compartment was in providing the coil in the cooling compartment with fins; is that correct?

A. I would say that the Potter—the Bronaugh-Potter structure included the use, and differed from Anderson in this respect of a non-frosting evapo-

(Testimony of Norman S. Parker.)

rator in the food storage compartment. I do not think it is proper to say that his improvement over the art consisted merely in making that change, since a finned coil or a coil of that type was already old at the time that Bronaugh and Potter were working.

Q. What I am trying to get at is this: Potter shows one type of coil 25. You say it is a finned coil, 25? A. Right.

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A. If he did, yes.

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Q. I know you might have in mind the Larkin patent. You may have something else in mind that

(Testimony of Norman S. Parker.)

you knew of in actual operation because of your extensive knowledge in the refrigeration field.

A. Well, I am familiar with the Larkin patent, but I have also seen other finned coils, of course.

Q. Long before, or at least before?

A. Before, shall we say.

Q. Yes, before Potter? A. That is right.

Q. For the same purpose of absorbing heat?

A. Finned coils are used to absorb heat; correct.

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(Discussion off the record.)

Mr. Ramsey: May we ask that the Defendants' Exhibit 106, which is the Larkin patent, be admitted? [864]

Mr. Cuningham: I object to it, your Honor, entirely outside the scope of the direct.

The Court: What is that exhibit?

Mr. Ramsey: That is the Larkin patent that the witness is referring to.

Mr. Cuningham: I have no objection to its correctness or authenticity, but I think it is the wrong time to get into that prior art. That is not part of plaintiff's case.

Mr. Byron: It is part of plaintiff's case, if you please; Bronaugh talked about it, talked about buying a Larkin coil and putting it into the Potter refrigerator, and I think we ought to identify it.

Mr. Cuningham: If your Honor please, this all comes in under the alleged invalidity of the patent

(Testimony of Norman S. Parker.)

over the prior art. We have not gone into the prior art, and, as your Honor knows, that opens up eight or nine patents cited. I think we should not do that at this stage.

The Court: I think this whole line of interrogation is proper. Mr. Parker made an estimate of a reasonable royalty based upon the fact that this was a revolutionary device; that never before had these things been brought into the home, and I think that Mr. Byron has a right to interrogate him on the various elements about which he testified.

Mr. Cunningham: I bow to your Honor's ruling.

The Court: It may be admitted. [865]

(Document, Larkin Patent No. 1,776,235, previously identified as Defendants' Exhibit 106 for identification, was received in evidence.)

Mr. Byron: I think you have stated—and if I am not right, you say so—I believe you have stated that the Larkin——

The Court: Just a minute, Mr. Byron. I want to say this, that we have a rule here, Mr. Ramsey, that when one attorney is interrogating a witness he and he alone conducts the proceedings, and no one interferes. Now both Mr. Cunningham and you have violated that rule once, but I just call it to your attention because that is going to be the rule from now on; only one man on one witness on a side. Proceed.

Q. (By Mr. Byron): Mr. Parker, you have referred to the Larkin coil, and I do not know if

(Testimony of Norman S. Parker.)

you made the statement or not that the Larkin coil is the type of coil used in the Potter patent refrigerator. Is that correct?

A. Well, I have no information on that. You asked whether it was a Larkin coil or not. Of course, there are other finned coils than Larkin, but the Potter coil would have the characteristics of Larkin in that the tubing passes through a series of fins.

Q. Yes. Now, in connection with that thought that you suggested on characteristics, I would like to read from the [866] Larkin patent. That patent is No. 1,776,235, and I wish to read from Page 2 of that patent beginning in Line 113.

The Court: Mr. Parker does not have a copy.

Mr. Cunningham: Neither do we, your Honor. We came up unprepared for this part of the defendants' case.

Mr. Byron: I think I can accommodate you. (Copies of Larkin patent presented to opposing counsel and the witness.)

Q. Do you have, Mr. Parker, Page 2?

A. Page 2.

Q. Beginning Line 113. That is in the second column.

A. Yes.

Q. Now, in reading this I have in mind, of course, the characteristics of the finned coil, the operation of it, the purpose of it, the function of it, and the results of it.

“With the present-type coil properly arranged in the casing a temperature of 36 degrees F. can be

(Testimony of Norman S. Parker.)

maintained in the casing without frosting the plates at all and consequently without freezing or dehydrating any of the contents of the casing whatever. A very large surface area and rapid heat absorption of the aluminum plates all lead to a rapid temperature drop when the unit is in operation. Since this temperature drop is less than two degrees, it follows that each refrigerating [867] cycle of operation must be of very short duration and consequently must greatly reduce the amount of power required to maintain it in operation. Whatever little moisture may be picked up from the air in the casing is deposited on the plates, and because of the large surface area on these plates must, when condensed, be spread on such plates in a very thin film which is constantly being removed by the circulating air and returned to the air and meats from which it was taken. Where below-freezing temperature must be maintained on the plates as in prior coolers it is obvious that any moisture taken from the meats becomes condensed and frozen on the plates and cannot be removed therefrom by the circulating air. In this case the meats not only lose weight which cannot be recovered but also deteriorate greatly in quality. This maintenance of humidity is only one of the most important results flowing from the use of cooling coils designed as disclosed herein."

That tells the entire story of the finned coils in a cooling chamber, does it not, the dehydration, non-

(Testimony of Norman S. Parker.)

dehydration, and the preservation of foods at the proper [868] temperature?

Mr. Cuningham: Objection; it tells what it tells. I think it calls for a conclusion.

The Court: This is cross-examination.

Mr. Byron: He ought to know. He is an expert.

Mr. Cuningham: Also, your Honor, to finish my objection, I object to it as not prior art in this sense. It is more than two years prior to the filing date of the patent in suit. This issued on September 16, 1930. The filing date is February, 1931. It is less than six months prior.

The Court: But it was filed June 28, 1928.

Mr. Cuningham: I know that, sir, but it is not prior art. It was not issued more than two years prior, and I object to it, move to strike it, strike the question.

The Court: The objection is overruled. The witness may answer the question.

The Witness: Well, the quotation you read from the patent discloses that Larkin had the idea when this patent——

The Court: I did not hear that last part.

The Witness: ——discloses that Larkin in this patent had the idea or taught the idea that a finned coil can be used in a refrigerated space to cool without frosting and therefore without taking moisture out of the food. He shows the structure in Figure 1 of that patent, apparently a showcase full of meat. [869]

Q. (By Mr. Byron): It would also prevent

(Testimony of Norman S. Parker.)

discoloration, at least to the extent that would be true in the Potter arrangement; is that correct?

A. Discoloration?

Q. Discoloration of meats. There has been testimony that meats discolor.

Mr. Cuninghame: Objection, your Honor. I think there is no such testimony. I think it is a misquotation.

The Court: He is making that claim.

Mr. Byron: The Bommer deposition.

The Witness: I do not know anything about discoloration of meat.

Q. (By Mr. Byron): All right. Well, it will tend to improve food in better condition by virtue of the fact that the food is not dehydrated; is that right? A. Yes.

The Court: That is what Larkin claims.

Mr. Byron: Larkin tells the story here, yes; that is right.

The Court: But Mr. Parker is not a food expert. I do not think, Mr. Parker, you are vouching for it; you are just saying that is what the patent reads?

The Witness: I am saying that is what the patent says.

Q. (By Mr. Byron): And as a result of your own experience in your home—you have spoken about that in your direct [870] examination—you know that to be true, do you, as a result of your experience? A. That meat keeps better?

Q. No, that food is not dehydrated by virtue of

(Testimony of Norman S. Parker.)

the fact—for the same reason as disclosed in the Larkin patent?

A. Well, I am not fortunate enough to possess an Admiral, but I am sure that that is correct, that your food is better if not dehydrated by a freezing coil.

Q. Well, now, Admiral does not have any finned coils in the cooling chamber, does it? A. No.

Q. Then you are not talking about the Admiral; you are talking about some other——

A. No, I just said I was not lucky enough to have a non-frosting box.

Q. You were able to find a finned coil structure in Admiral? That is what I understood.

A. No, sir; I did not.

Q. Okeh, just so we understand each other.

Now, then, I would like to go to Page 5 of the Larkin patent beginning in Line 87, and Larkin says about his coil:

“Where the casings are properly installed with five-eighths-inch copper tubing spaced apart at three and a half inches between centers through [871] aluminum fins having a surface area equal to the outside surface area of the casing a temperature of 36 degrees F. can be maintained at the center of the casing by maintaining a temperature of 34 degrees F. on the face of the cooling units. Since this is above freezing point, this temperature of 36 degrees can be maintained without frosting the fins. It is obvious, too, that any moisture condensed on the fins will be removed practically as fast as

(Testimony of Norman S. Parker.)

formed by the air circulating through the units. Hence this moisture, because of the large condensing area of the fin, be formed in exceedingly thin film which can be readily absorbed by the circulating air."

That is a further statement to the same effect, a little more detailed in some respects, is that correct? A. Yes. [872]

Mr. Cuninghame: May my objection be continued?

The Court: You may have your objection to this whole line of interrogation, Mr. Cuninghame.

Q. (By Mr. Byron): Now, just a word or two about insulation. The lower the temperature it is desired to maintain in the refrigerating compartment the more insulation material would be used, would it not? A. Yes.

Q. Now there is another angle to that also, and in that connection I would like to refer to the Anderson patent. The larger the surface exposure of the cooling compartment the greater will be the leakage of air from the outside to the inside, is that correct? A. Leakage of air?

Q. I mean the temperature, heat.

A. Well, you're getting beyond my knowledge. You mean that if you take a unit of area of the outside the more units of area you have the more heat can pass through?

Q. That's right. A. Like——

Q. Say, for example, if this unit is one foot and the compartment was only that high (indi-

(Testimony of Norman S. Parker.)

eating), you would get a certain amount of heat leakage, and if you had two units you would get an increased amount of heat leakage, and three units, four units, five units, the heat leakage would increase that much [873] more, would it not?

A. Not heat leakage per unit, but heat leakage per total area.

Q. The greater effect would be the leakage on the inside compartment?

A. Well, you're getting beyond my information, but it sounds logical.

Q. It is the same old thing as using blankets on your bed, if you desire to keep the heat or cold from transferring through the covers you merely increase the number of blankets for insulation, do you not?

A. Well, I do.

Mr. Cuningham: I thought we were going——

The Court: Well, then, you can talk for Mr.—no objection to that. It's just that not more than one can interrogate the witness. They can talk to cocounsel.

Q. (By Mr. Byron): Now, referring to the Larkin patent again, 1,776,235, I wish to call attention to the second part of that letters patent, beginning in Line 4, "This invention relates to refrigeration in general and particularly to a cooling unit adapted for use in display case refrigerators, refrigerator cars, storage rooms, household refrigerators, et cetera." So he envisioned household refrigerators as well as the other elements?

Mr. Cuningham: Objection, your Honor. [874]

(Testimony of Norman S. Parker.)

The Court: I think that's a little argumentative, too. The patent is in evidence and you may read any portion of that to the jury in your argument.

Q. (By Mr. Byron): Now, Mr. Parker, Bronaugh and Potter regarded this feature of fins as an essential feature to the successful operation of their refrigerator, did they not?

Mr. Cuninghame: Objection, your Honor.

The Court: Objection will be overruled. Mr. Parker is your patent expert.

Mr. Cuninghame: Your Honor, he has asked what they regarded it as. He is asking for the state of the individual's mind. He doesn't—I object to the form of the question.

The Court: Objection overruled. Go ahead.

The Witness: Can I have that question again?

Mr. Byron: Would you read the question, please?

(Last question read.)

The Witness: No, I don't think so. Fins aren't mentioned in the patent.

Mr. Byron: Well, I know that is sad for the patent. I was going to get to that.

The Court: All right.

Mr. Cuninghame: I move to strike that.

The Court: Mr. Byron——

Mr. Byron: Yes, I appreciate—I beg your pardon.

The Court: All right. Let's do the arguing during the [875] argument period and the interrogation during the interrogation period.

(Testimony of Norman S. Parker.)

Mr. Byron: I know Mr. Parker so well that I sort of forget I am not in his office. I am forgetting where I am, and I beg your pardon.

Q. Now, in the Potter refrigerator, then, as distinguished from the patent in the commercial refrigerator which he made, he used finned coils for accomplishing the result he was looking for; that is, preventing frosting of the coil and preventing dehydration of the food. That's correct, isn't it?

A. Correct.

Q. Now then, getting to the point which you mentioned, Bronaugh and Potter nowhere in their patent specification mentioned the word "finned," do they? A. They do not.

Q. And that being true, then that specification does not give a full, clear, concise, and in exact terms in describing this so-called finned coil which you claim is shown at 25 and Figure 2 of the Potter patent?

The Court: Don't answer that.

Mr. Cunningham: I object, your Honor. It's an ultimate question for the jury.

The Court: Yes. I think I have explained to the jury that Mr. Parker is a different kind of a witness than we have had so far. He can answer the ultimate question. You don't [876] have to believe him but he can give his opinion, because he is a patent expert. You may answer the question, Mr. Parker.

The Witness: Can I have it again?

(Testimony of Norman S. Parker.)

Mr. Byron: Would you read the question, please?

(Last question read.)

The Witness: Well, the specification calls for a structure——

Mr. Byron: Now, wait a minute. I asked a very specific question about fins.

Mr. Cuninghame: May the witness answer, your Honor?

The Court: No, wait a minute. I think he has to answer the question.

You will have to read the question this time loudly enough so I can hear it.

(Last question read.)

The Witness: It does not describe a finned coil. It shows one in the drawing.

Q. (By Mr. Byron): Now, wait a minute. I limit that question to the specification, the description in the specification. I am entitled to an answer on that.

The Court: Yes.

The Witness: It does not describe a finned coil in the specification.

Mr. Byron: For any purpose whatsoever.

A. Yes.

Q. For any purpose whatsoever? [877]

A. Correct.

Q. Then as a patent expert, Mr. Parker, you knew that the specification of the patent in suit does not meet the requirements of the statute, is

(Testimony of Norman S. Parker.)

that correct? A. No.

Q. It does not meet it?

A. No, that is not correct. It does, yes, in my opinion.

Q. Now, are you saying that the description of the finned coil—you say there is no mention of the finned coil in the specification?

A. That's correct.

Q. Well, then, there can be no full, clear, concise description of the finned coil or—in exact terms?

A. That's correct. There is no description of the finned coil.

The Court: Well, I think that what Mr. Cunningham is getting on his feet to object for is to the argument between——

Mr. Cunningham: That's correct, your Honor.

The Court: ——between you——

Mr. Cunningham: And I object.

The Court: ——between you and Mr. Parker, and I think it would be perfectly all right to ask him questions, but try to avoid argument.

Mr. Byron: Well, I think Mr. Parker understands what I mean there sufficiently so that he might give an answer. [878]

The Court: It's five minutes of eleven now, Mr. Byron, and I think this is a propitious time to take a recess for about ten minutes.

Mr. Byron: Thank you.

The Court: Ten-minute recess.

(Recess.)

(Testimony of Norman S. Parker.)

The Court: Go ahead, Mr. Byron.

Q. (By Mr. Byron): Mr. Parker, is there such a thing as a nonfrosting coil and a frosting coil?

A. You mean in the sense that the coil is inherently frosting or nonfrosting?

Q. Well, in any sense you desire to answer that.

A. No. I think you would have to use those terms in relation to the situation of the coil in a particular assemblage of parts.

Q. I think that's right. You can cause a coil to frost or you can treat the coil so it will not frost, is that correct?

A. That's correct.

Q. And as long as we are on that subject, it's a little bit out of my line here for the moment, but let's take the function of the expansion valve 23 in Potter and the expansion valve 33 in Anderson, or either one. The function of that expansion valve is to control the flow of liquid refrigerant from the high pressure side to the low pressure side, is that correct?

A. That's true. [879]

Q. And when that liquid refrigerant passes through the valve into the freezing coil at the entrance the liquid refrigerant evaporates, and in so doing absorbs heat from the freezing compartment. That's correct, isn't it?

A. Right.

Q. Then that liquid refrigerant, if it has not all been used up in the freezing coil, passes on to the cooling coil in the cooling compartment, is that correct?

A. Bronaugh and Potter?

Q. In both.

(Testimony of Norman S. Parker.)

A. Bronaugh and Potter say so. I would assume it's correct.

Q. Well, now, when that liquid refrigerant passes from the freezing coil into the cooling coil in the cooling compartment of Bronaugh and Potter patent in suit, I believe there is some frost formed at the entrance?

A. At the entrance, so the patent says, there may be slight frost formation where the coil enters the compartment.

Q. Yes. Now then, we have showed that with a given setting of the expansion valve. Now, let us open the valve a little wider. Then we get an increased flow of liquid refrigerant, do we not?

A. You would.

Q. And under those circumstances it's quite possible that the liquid refrigerant would go further in the cooling coil, is that correct? [880]

A. I would think so.

Q. And the further that goes in the cooling coil before evaporating, the greater the tendency will be toward frosting?

A. I would think so.

Q. And you could supply enough liquid refrigerant by opening the expansion valve far enough to have a liquid refrigerant passing substantially through the cooling coil in the cooling compartment, could you not?

A. Well, I have never had any experimental experience with it, but I would think that was the case.

(Testimony of Norman S. Parker.)

Q. And in such a case you would get a frosting on the coil, would you not?

A. I think you could.

Q. Think you could, yes. So that the frosting or nonfrosting of a coil is a function controlled by the expansion valve, is that correct?

A. Well, by the expansion valve plus the general capacity of the system. I don't know that that would be the sole factor.

Q. Well, assuming a constant capacity.

A. I would think so. I haven't made any tests, of course.

Q. That same thing would be true in the Anderson arrangement also, wouldn't it?

A. Well, I am not sure. Could you ask me—I want to make sure that I understand the [881] question.

Q. All I have in mind is this: In Anderson if you increase the opening of the expansion valve 33 to the extent that you get liquid refrigerant passing through the liquid coil, and then passing through a substantial part of the coil 40, you would get an increased frosting? A. I would think so, yes.

Q. Same as you would in Potter, correct?

A. Yes.

Q. Well now, let us go from that extreme back to another extreme. Let us close the expansion valve 23 in Potter, 33 in Anderson, so that you get a relatively small amount of liquid refrigerant in the cooling coil. What would be the result?

(Testimony of Norman S. Parker.)

A. Well, that's—are you talking about both those structures?

Q. Yes; both of them. You can take either one.

A. Let me have the question read.

Mr. Byron: I will reframe the question.

Q. Looking at Plaintiff's Exhibit 16-A of the drawings of the patent in suit, assume that the expansion valve 23 is opened an amount whereby a certain amount of liquid refrigerant passes up into the cooling coil 25. Now, under those circumstances, if we close the expansion valve 23 somewhat, what will be the result?

A. You would have less refrigerant going for evaporation to the coil 25; therefore, less abstraction of heat. [882]

Q. And if the valve—expansion valve 23 were opened only to the extent that all of the liquid refrigerant were transformed to a vapor in the freezing coil 22, would there be any effect in the cooling coil 25 for abstracting heat from the cooling chamber 14?

A. Well, it certainly would if all of the refrigerant is evaporated in the coil 22 so that no liquid passes to the coil 25. Then there could not be any abstraction of heat by actual evaporation. How much heat abstracts may be from the mere circulation of the refrigerant, I wouldn't know.

Q. Well, if the refrigerant were all transformed into a vapor in the refrigerating coil 22, and you had nothing but the vapor passing through the

(Testimony of Norman S. Parker.)

cooling coil 25, would you get any cooling effect in the cooling chamber?

A. I frankly don't know because I don't know what the temperature of the vapor would be.

Q. Under those circumstances would you get any frosting of the coil in the Potter arrangement?

A. No—of the upper coil?

Q. Yes. A. No, you certainly would not.

Q. And would you get any in the cooling coil 40 of the Anderson patent?

A. If no refrigerant entered the Anderson upper coil to evaporate, I do not see how you could get any frosting on it. [883]

Q. No liquid refrigerant?

A. I mean no liquid refrigerant.

Q. That's right. So they would be the same in that respect? A. Yes.

Q. You nodded your head. Did you answer?

The Court: Yes, he has answered.

Mr. Byron: I see.

The Witness: I thought I answered.

Q. (By Mr. Byron): I assume, of course, you have considered the file history of the Potter-Bronaugh patent?

A. Yes, I have gone through it.

Q. And what is the exhibit number?

Mr. Ramsey: Defendants' Exhibit 101.

Q. (By Mr. Byron): Defendants' Exhibit 101 is the file wrapper of the original Bronaugh and Potter patent 2,056,165, and Defendants' Exhibit 102 is the file wrapper of the Reissue Patent 23,058.

(Testimony of Norman S. Parker.)

The Court: Get the two file wrappers out, the original, and the reissue.

Mr. Byron: And I offer those in evidence at this time.

Mr. Cuninghame: No objection, your Honor.

The Court: I think they are in, aren't they?

Mr. Byron: I think they are. They were before, but I want to make sure of them here.

The Court: The original and reissue, both of them, give them to Mr. Parker, will you? [884]

Mr. Cuninghame: Your Honor, it seems appropriate at this time to ask what the purpose is of these exhibits, the file wrappers. May we have a statement from our adversary as to the purpose?

The Court: The reissue patent is the crux of this lawsuit. If you did not have that in evidence, you could not maintain your lawsuit.

Mr. Cuninghame: Your Honor, I think I did not make myself clear. I would like to know the purpose of offering this bulky patent on both patents, the original and the reissue. Why does the defendant wish to have it in?

The Court: Do you want to tell him why you want it in?

Mr. Byron: Yes; to cross-examine Mr. Parker to get at what the alleged invention is here, what Bronaugh and Potter attempted to get and what they thought was their invention. I do not want to make an argument here before the jury.

The Court: Go ahead.

Q. (By Mr. Byron): Will you please refer to

(Testimony of Norman S. Parker.)

the page in that file history, Defendants' Exhibit 101.

The Court: You mean all the claims that were canceled?

Mr. Byron: I want to refer to a few of those claims.

The Court: Very well.

Q. (By Mr. Byron): Do you have that place, Mr. Parker? [885] A. Yes, I have.

Q. I wish to read to you Claim 1, the original Claim 1 which was submitted by Bronaugh and Potter in their patent application to indicate, to show what they regarded at that time as their invention. Now this is Claim 1. I think I would like to do a little pointing. I am starting over again now, Claim 1:

"A refrigerator having a freezing compartment (indicating on drawing) and a cooling compartment thermally separated from said freezing compartment."

Now, that refers just to a refrigerator having a freezing compartment and a cooling compartment thermally separated; is that correct?

A. Correct.

Mr. Cuninghame: Your Honor, I object to the form of the question as to what they thought was their invention. I will admit the claim.

Mr. Byron: That forces me to say that when Bronaugh and Potter, like any other applicant or applicants, file a patent application in the patent office they take an oath that they are defining their

(Testimony of Norman S. Parker.)

invention in these claims, what they regard to be new and patentable. If that is not what they meant as their invention, then they were taking a false oath, and I do not believe they were. [886]

The Court: I think what Mr. Cuningham is objecting to is the fact that all of these claims which you propose to read on Page 8 were rejected by the examiner as not being any invention.

Mr. Byron: That is right.

The Court: Is that right?

Mr. Cuningham: That is correct, sir; that objection was acquiesced in.

Mr. Byron: I was rather anxious that the jury should know just exactly what was rejected, and the acquiescence—what is your invention.

Mr. Cuningham: Well, if your Honor please, it is all in the case in the best form possible. Why ask Mr. Parker about it? He cannot improve on the record.

The Court: Of course, Mr. Parker is an expert, and he can do what other people cannot do, and that is he can explain a patent. If the file history is important in connection with some of the claims that have been granted, then the examination is proper. I want to know then from Mr. Byron, do you contend that the rejected claims limit the claims that were allowed?

Mr. Byron: What it does is to show what these patentees admitted was not their invention, and then we get into broader claims which were rejected and canceled, and now they are putting an interpre-

(Testimony of Norman S. Parker.)

tation on the new claims in this case [887] giving an interpretation of the same scope of some of the canceled claims, and there is file wrapper estoppel.

The Court: Have you pleaded file wrapper estoppel?

Mr. Ramsey: Yes.

Mr. Cunningham: I fail to see how Mr. Parker can do anything about that. The claims are in. They are all cleared.

Mr. Byron: He is contending infringement here. That goes into the scope.

The Court: Do you have another subject matter to go into now besides the file wrapper, and then we can look at the questions in the whole situation during the noon recess. Do you have anything to carry you through on Mr. Parker until noon?

Mr. Byron: Yes, but there is a sequence here that I would like to kind of follow. I will see what I can do.

The Court: How long will this take you to go through the file wrapper?

Mr. Byron: Oh, I suppose what I am going to say, probably a half-hour.

The Court: On the file wrapper alone?

Mr. Byron: Well, the file wrapper and related matters. I can go on.

The Court: Go ahead.

Mr. Byron: I will tell you: I will promise to cut it [888] short. I will do that.

The Court: When?

Mr. Byron: Right now.

(Testimony of Norman S. Parker.)

Q. Before I get further into the file wrapper, I might ask you a few questions somewhat related.

Do you regard—or Potter regards the expansion valve 23 as an essential element in the operation of his refrigerator, doesn't he?

A. That is an equivalent, something to drop the pressure.

Q. Well, let us just stick to his structure now, the one shown here in suit. He regards that expansion valve 23 as an essential element in the operation of his device?

A. Yes, sir.

Mr. Cunningham: I object to that "regards," your Honor.

Q. (By Mr. Byron): Well, it is an essential element, then, is it?

The Witness: Some means for getting the pressure drop at that point is essential.

Q. And the thermostat 31 in Potter's arrangement is an essential element, is it not?

A. He so regarded it.

Q. On that connection, I wish to call your attention to Page 2 of the Potter reissue patent in suit, beginning in Line 72. I wish to read the paragraph, about 15 lines.

"While the thermostat 31 (indicating on [889] drawing) controls the temperature in compartment 14 (indicating on drawing) the setting of the expansion valve 23 (indicating on drawing) controls the temperature of the compartments 12 and 13. As the expansion valve is adjusted to restrict the discharge of refrigerant, the pressure differential in

(Testimony of Norman S. Parker.)

the refrigerant circuit is increased, lowering the temperature of the coil 22 and that of compartments 12 and 13, until they reach their respective minima corresponding to the valve setting. The refrigerant will be completely vaporized in coil 22 until the temperatures of the compartments near said minima, when some of the refrigerant will reach the coil 25 in liquid form, and, by vaporizing therein, will cool compartment 14. Thus, by our system the compartments 12 and 13 must first be cooled to minima fixed by the setting of the expansion valve before compartment 14 can be cooled to a minimum set by the thermostat. This arrangement whereby one temperature is controlled by a thermostat and another by an expansion valve is a novel feature of our invention."

Now, I think you have stated before, but let us make certain about it, the thermostat in the cooling compartment 6 of Anderson will control the temperature of that [890] cooling compartment 6 in Anderson, will it not? A. Correct.

Q. And the expansion valve 33 of Anderson will control the temperature in the freezing chamber 7; that is correct, isn't it?

A. I believe that is correct.

Q. Well, then, that is not a novel feature, is it?

A. No.

Q. To Bronaugh and Potter?

A. I would not think so.

Q. I would like to go to this file wrapper again, Defendants' Exhibit—

(Testimony of Norman S. Parker.)

The Court: Go ahead, Mr. Byron. I have thought it over, and I have come to the conclusion that it is proper cross-examination. I am not going to limit you, and, Mr. Cunningham, you may have an exception to this whole line of interrogation.

Mr. Cunningham: Thank you, your Honor.

Q. (By Mr. Byron): Your attention is invited to Page 13 of the file wrapper, and that paper is an action by the Patent Office which rejects all of the original claims on the Davenport patent, 1,731,711; is that correct? A. Yes.

The Court: Are you going to show the Davenport patent?

Mr. Byron: Yes. [891]

(Discussion off the record.)

Q. (By Mr. Byron): You might turn to the drawing, or if you like to see the drawing, Mr. Parker, the drawing here?

The Witness: Is it 1,731,711?

Mr. Byron: That is right.

A. I have it right in front of me.

Q. Davenport shows a freezing compartment C, does he not? A. Yes.

Q. And he shows a cooling compartment B, does he not?

A. Yes, he calls it a food chamber.

Q. Well, it is a cooling compartment, isn't it?

A. I think so.

Q. That cooling compartment has an evaporator 5, has it not? A. Yes.

(Testimony of Norman S. Parker.)

Q. That evaporator is in the form of a hollow wall, is it not, 5? In other words, two spaced sheets of metal between which a liquid refrigerant passes?

A. Yes. You will excuse me if I check with the patent as I answer your questions.

Q. Oh, certainly. Take your time. It is perfectly proper.

There is an evaporator 4 for the freezer, is there not? A. Yes.

Q. The evaporator 4 and the evaporator 5, he says the [892] evaporator 4 in the freezing compartment and the evaporator 5 in the cooling compartment are connected in series. A. Yes.

Q. And the evaporated liquid which is then vapor passes from the cooling compartment of the evaporator over to the condenser compressor set, does it not? A. Yes.

Q. Then we have the condenser shown at 11; right? A. Yes.

Q. Where the vapor is changed into liquid refrigerant again so that it can pass through the regular cycle? A. That is correct.

Q. Your attention is called to Page 15 of the file wrapper of the original patent, Defendant's Exhibit 101, in which Potter and Bronaugh make these remarks. We will go back to Page 14 to make a connected story. Now bear in mind that this Davenport patent has been cited in the application of the original Potter application, and the claims rejected on the patent. In an argument among other things Potter and Bronaugh say, "In the

(Testimony of Norman S. Parker.)

first place, they have provided three kinds of compartments—" That is to say, Potter and Bronaugh have.

"In the first place, they have provided three kinds of compartments, No. 14 (indicating on drawing) which is a cooling compartment and [893] not a freezing compartment, No. 13 which is a freezing compartment in which are placed nonvolatile food-stuffs, and the last, a water-freezing compartment 12 in which only as much frost can form as results from water evaporation. In the compartment 13, which is separated therefrom, the temperature is so low that the frost is in the form of a white powder, and it is impossible for this ever again to go to the water-freezing compartment." [894]

Q. (By Mr. Byron): Now, this point, continuing the quotes:

"In the compartment 14 there is condensation but practically no frost and if it does form it is caught in the collector 28 and transferred to the receptacle 30 after which it is never again frozen."

Mr. Cuninghame: I object, your Honor. This is exactly what I was afraid of. I was afraid we would go into these endless arguments of the attorneys, and this is not part of our case, it's not within the scope of the direct, and I think, furthermore, it's incompetent to prove anything in the case under—in the defendants' case, and I object to it and move to strike it.

Mr. Byron: Among other things, your Honor, it shows that Potter and Bronaugh recognized the

(Testimony of Norman S. Parker.)

fact that there was frost in their chamber, and I want to talk a little bit about that and about this condensation and dripping.

The Court: Well, I think it all is applicable and relevant in connection with plaintiff's case. I thought it was being introduced for a little different purpose, but I can see that the purpose for which it is being used is perfectly proper, and the objection is overruled. You don't have to object any more, Mr. Cuninghame, because I will give you an objection to this whole line.

Mr. Cuninghame: Thank you, your Honor. [895]

Q. (By Mr. Byron): Now, referring to the Potter arrangement, why is it necessary to have this drain 28 and this bottle for collecting water in the patent in suit?

A. The drain is to catch moisture which may drop from the fins and to put it in the container which can be removed.

Q. And all of that moisture which goes in the form of water eventually into that bottle 30 comes out of the air in the cooling compartment, and it comes out of the food in the cooling compartment, does it not?

A. One or the other or both.

Q. Right. Now, in that same connection I will refer to the Anderson patent which is in evidence, and your attention is directed to page 2. Do you have a copy?

A. I will see if it's in this book. Yes.

Q. Beginning line 35, and referring to the An-

(Testimony of Norman S. Parker.)

derson patent, Plaintiff's Exhibit 16-B, now, page 2 of the Anderson, beginning on line 35 there is:

“A removing guard or screen netting (indicating) extends in front of the back member of the coil 40 (indicating) as at 46 and inside of the side members of the coil as at 45 (indicating) to prevent any food vessel from being placed where dripping from the coil would fall into such vessel.”

Now, that shows that there is dripping also from the coils on the Anderson arrangement, is that correct? [896] A. Correct.

Q. And that would be the same, then, both in the Anderson and in the Potter and Bronaugh patent in suit?

A. That I don't believe I would be able to answer.

Q. Insofar as the collecting of water and the dripping of water is concerned.

A. In both of them at some stage there is formation of—or, rather, there is moisture on the coils which drips. That's all I can get from that.

Q. And that comes from the air in the cooling compartment and from the food in the cooling compartment? A. Correct.

Q. Now, then, your attention is directed to page 25 of the file wrapper in Defendants' Exhibit 101 thereby an amendment—or Claims 15, 16, and 17, which were added to the original specification. That is correct, is it not? A. Yes.

Q. I would like to read just one of those claims. 15:

(Testimony of Norman S. Parker.)

“A refrigerator comprising a cabinet formed with a dry cold storage chamber and a relatively moist and warm cooling chamber thermally insulated from the cold storage chamber, a freezing coil in the cold storage chamber, a nonfrosting coil in the cooling chamber (indicating), a line directly connecting said coil (indicating) and a heat pumping [897] unit (indicating) for drawing gassified refrigerant from the nonfrosting coil (indicating) and returning the same as a liquid into the freezing coil (indicating).”

If you will observe these Claims 15, 16, and 17, which are added to the application on December 2, 1932—that is the date of the application, isn't it, or the amendment? A. Right.

Q. That is the first time that any claims have been inserted on this nonfrosting idea. That's correct, is it not?

A. I think so, without reading it.

Q. Now, that Claim 15 does refer to a nonfrosting coil and you and I have agreed that there is no such thing as a nonfrosting coil per se?

A. There is no such thing as a coil which under all circumstances will be nonfrosting.

Q. It depends on how it's used?

A. On how it's used and in what environment it's used.

Q. Now, Claims 15 and 16 were later cancelled, were they not?

A. I believe so. They are so marked on my copy.

Q. Now, for the moment I want to return to the

(Testimony of Norman S. Parker.)

Larkin patent and what I have read rather extensively to you from the Larkin patent about the finned coils and how they prevent dehydration of the food and deterioration of the food.

Now, here is an element of each of the claims in [898] suit and I want to ask you whether or not Larkin doesn't disclose that element.

Mr. Cuninghame: Objection, your Honor. You can't anticipate element by element a combination claim.

The Court: Objection overruled. This is cross-examination.

Q. (By Mr. Byron): I am referring to that element which reads as follows:

"A cooling refrigerant coil or expander having heat-conducting surfaces within the cooling compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature above 32 degrees F. while withdrawing heat from the said compartment to maintain the air in said cooling compartment at a substantially stable temperature above 32 degrees F."

Now, that element describes the Larkin arrangement, does it not? A. I believe it does.

Q. In the exhibits here in court of the Potter refrigerators—could I have this out of the way?

(Whereupon the exhibits were moved.)

I refer first to the Plaintiff's Exhibit 11-A. There is a shield in the rear upper part of the cooling compartment, is there not?

(Testimony of Norman S. Parker.)

A. Yes. [899]

Q. And that shield covers the finned coil. Right?

A. Yes.

Q. And that shield covers the finned coils in such a way so completely that you cannot tell if the coils or the fins frost or not, correct?

A. Not without taking the shield off.

Q. Well, the shield, when it's in place, you cannot tell? A. That's correct.

Q. And that shield is fastened in there permanently, is it not? A. I don't know.

Q. Well, come and find out.

Mr. Cuninghame: Well, I object, your Honor.

Mr. Byron: Well, this means something.

The Court: Yes, I know.

The Witness: There are four screws on it.

Q. (By Mr. Byron): Rather permanently fixed?

A. Well, you could take it off if you wanted to. I would suspect it's not meant to be taken out in ordinary use.

Q. Well, could you or anybody else opening that door tell whether or not the cooling coil in that cooling compartment is frosted?

A. No, I don't think so; not by merely looking.

Q. Well, it would take quite an inspection?

A. No, sir; you can put your finger around the end of the [900] shield and feel whether it's frosted or not.

Q. And who would do that?

Mr. Cuninghame: I would object.

(Testimony of Norman S. Parker.)

Q. (By Mr. Byron): Well, I would like to know.

The Witness: I did it once.

Q. Well, when you are making an inspection for it. A. In an operating machine, yes.

The Court: I think you have got enough in here to make your argument.

Mr. Byron: Well, I am going to another phase of the examination, your Honor, and shall I start now or——

The Court: Well, no, I think that we are going to quit now and we will start at—I was going to recess until 2:00 o'clock, but in view of the fact we are letting them out five minutes early we will start 15 minutes early at 1:45.

(Whereupon the jury was excused for the noon recess.)

The Court: Are you going into the file wrapper any more?

Mr. Byron: Well, if I do it will be very briefly. Very briefly.

The Court: I wanted to tell you this, that I stopped you when you were on page 8 of the original claim after you read Claim No. 1, but on reconsideration I came to the conclusion that you could with propriety interrogate the witness on the other claims, original claims, and I don't want to [901] limit you except that I hope you won't read all the 14 original claims. But you can take up two or three of them.

(Testimony of Norman S. Parker.)

Mr. Byron: I intended to read three, your Honor, but I will let it go at one.

The Court: You can read all 14 if you want, but I hope you won't.

Mr. Byron: All right.

The Court: Recess till 1:45.

(Thereupon, at 12:00 o'clock m., a recess was taken until 1:45 o'clock p.m.) [902]

Afternoon Session

(At 1:45 o'clock p.m. the trial herein was resumed, pursuant to recess, and proceedings herein were had as follows:)

NORMAN S. PARKER

a witness called in behalf of Plaintiff, thereupon resumed the stand and was further examined and testified as follows:

Cross-Examination (Continued)

By Mr. Byron:

Q. Mr. Parker, in connection with your application of the claims of the patent in suit to the accused structure, the Admiral refrigerator, I wish to call attention first to an element that Claim 2—I think it is in all of the claims but illustrative anyhow in 2, that element which is a cooling refrigerant expander having heat-conducting surfaces within

(Testimony of Norman S. Parker.)

said cooling compartment. First, let us understand what is meant by expander. Is that the same as coil in this case?

A. Expander is any member in which a refrigerant, and to me the term includes the duct itself and whatever conducting surface it has which carry heat to the duct.

Q. Yes, and it is called variously a coil in this case, is it not, and an evaporating tube or an evaporator tube or an [903] evaporator?

A. That is right.

Q. Well, now, will you point out again in any drawing or in the accused devices, in the models, a cooling refrigerant expander having heat-conducting surfaces within said cooling compartment.

(Discussion off the record.)

The Witness: May I have that question read?

(Pending question read.)

The Witness: The duct portion of the cooling refrigerant expander I am pointing to—I believe it is the coil 102 on the transfer plate 104, and it is in close heat-conducting relation with the sleeve which is in the cooling compartment, the sleeve itself plus the what Mr. Morton described as the fins 70 and, I believe, 104, deliver the heat from the cooling compartment to the coil itself.

In other words, the coil has the heat-conductive surface which lines the storage space and from

(Testimony of Norman S. Parker.)

which the heat is abstracted by the refrigerant evaporated in the coil portion 102.

(Discussion off the record.)

Q. (By Mr. Byron): Referring to the Potter patent in suit, the cooling refrigerant expander having heat-conducting surfaces within the cooling compartment, and now I am referring to Plaintiff's Exhibit 16-A, that cooling refrigerant [904] expander is shown at 25, is it not?

A. Correct.

Q. And it is within the cooling chamber 14, is it not? A. It is.

Q. And its heat-conducting surfaces are within chamber 14, are they not?

A. That is correct.

Q. Correct? A. That is correct.

Q. Now, then, referring to the accused device, and you have said that a portion of the freezing coil which is attached to the primary transfer plate is a part of the cooling coil; is that correct?

A. I don't think I said it that way.

Q. Well, any way you like it; you say it again.

A. The so-called primary expander, if I remember the terms of Mr. Morton correctly in his patent, he said, was divided into two parts; one which is secured about the exterior of the sleeve of the freezing compartment, and the other of which was secured in heat-transfer relation with the primary transfer plate.

Q. In any event, that is one continuous coil for

(Testimony of Norman S. Parker.)

a freezing coil to be used in connection with the freezing compartment, is it not?

A. No, I would not say that. The part of a continuous [905] line of ducting or tubing, part of it abstracts heat from the freezing compartment, and part of it, that part in the transfer plate 104, abstracts heat from the cooling compartment, and that is why it is there.

Q. All of the freezing refrigerant, however, passes through the freezing coil attached to the primary transfer plate; is that not correct?

A. That is true.

Q. Now, then, that coil, the freezing coil, that portion of the freezing coil is not within the cooling compartment, is it—I say that portion of it.

A. Well, in the first place, I hesitate to call that a freezing coil because it is not in connection with the freezing compartment. It is within the insulation which surrounds the liner shown in Exhibit——

Q. Let's get it out here.

(A refrigerator box was brought before the jury.)

The Witness: The primary transfer plate which is secured below the freezing locker, the coil on the primary plate which takes heat from the moist cold compartment is on the exterior of the primary plate. and therefore it is on the exterior of the food storage container of the cooling compartment. It is, however, within the insulation which surrounds the

(Testimony of Norman S. Parker.)

compartment and is subjected to the same [906] conditions of temperature. Whether you say that the compartment begins inside of the locker or not, or this locker, rather, it is hard for me to see—to me everything that is within the refrigerated space surrounded by the insulation about the cooling compartment is within the cooling compartment.

Q. That is the very first question I asked you this morning, Mr. Parker, to get a definition. I thought I had.

Referring to Defendants' Exhibit 117, I am now placing my hand in this shell. That is the cooling compartment, is it not?

A. That is within the cooling compartment.

Q. That is the cooling compartment, is it not?

A. No.

Q. Where do you put vegetables, fruit and food generally to cool them?

A. Why, surely, it is part of the cooling compartment where you store vegetables, but that is not the only part of the cooling compartment. The cooling compartment includes everything within the insulation surrounding this sleeve.

Q. That is your position?

A. That is my position.

Q. But you do not put any food in the insulation for cooling purposes, do you?

A. You certainly do not. That is what this sleeve is for. [907]

Q. That is right. Now, then, freezing liquid refrigerant passes through this primary coil which

(Testimony of Norman S. Parker.)

goes to the freezing compartment, the outside of the freezing compartment; that is correct, isn't it?

A. Yes, that is correct.

Q. Now, then, that whole part of the coil, freezing coil, receives freezing refrigerant, does it not?

A. Well, it receives evaporating refrigerant.

Q. Well, in accordance with the terms that we are using in the patent of freezing refrigerant passing through a refrigerant coil, it all passes through that coil?

A. Yes, it does.

Q. That is your freezing refrigerant.

A. The refrigerant which comes up and about the freezing locker passes through that freezing coil.

Q. That is right, and that freezing coil takes a refrigerant which passes through the coil at about zero degrees Fahrenheit, doesn't it?

A. I couldn't tell you that.

Q. Well, it is for freezing purposes, isn't it?

A. I would so assume that it does.

Q. Well, you know that, don't you? If you are going to freeze food in the upper chamber, you have got to have a freezing refrigerant to do it?

A. Yes, I would say so. [908]

Q. Now, then, let us assume for a minute that your definition of the location of the freezing coil is correct—and I do not take that definition but just for the moment—the heat-conducting surfaces now—this would be a cooling coil, a portion of it, you say—you say it is a portion of the cooling coil?

(Testimony of Norman S. Parker.)

A. I do not remember precisely how I said it, but I think you are getting into an environment which would give information somewhat different than I want to give.

Q. I do not want you to give that, Mr. Parker.

A. What I said, I said that this part of the coil was a coil which took heat out of the moist cold compartment, and it took it through a heat-transfer surface in the moist cold compartment.

Q. That means just one thing to me, and that is that this is a refrigerating coil, a freezing coil in the primary circuit, then, is a part of the cooling circuit for the cooling compartment; is it not?

A. It is not connected in circuit with this so-called secondary system, but it is a part of the system which takes heat out of the moist cold compartment.

Q. Then it is a coil—that portion is a coil, a freezing coil for, acting as a cooling coil to take heat out of the main food compartment; is that correct?

A. That would be one way of saying it. That would not be [909] the way I would say it.

Q. You say it the way you want it.

A. I would say that this part of the primary coil which is not freezing anything adjacent at this point is not intended to freeze, is the means for abstracting heat from the moist cold compartment.

Q. Now we have got to start over again. You have agreed heretofore, I believe, that a freezing

(Testimony of Norman S. Parker.)

refrigerant passes through this portion of the freezing coil to go on and freeze material in the freezing compartment. Now you have agreed to that, have you not?

A. No, I have not agreed to that. What I have agreed to is that volatile refrigerant flows through this coil, can flow through this coil, and since it is connected in series will also flow through the coil which freezes material in the frozen food locker.

Q. Then that freezing refrigerant in that coil, the coil section is at least zero degrees, isn't it?

A. Well, I would be guessing on that, but I assume it is.

Q. It is far below 32 degrees?

A. Certainly.

Q. If you want to freeze, all right.

A. The refrigerant itself as it passes through that coil?

Q. Yes, is about zero degrees Fahrenheit?

A. I would expect so. [910]

Q. All right. Now, then, let us get back to this claim, a cooling refrigerant expander having heat-conducting surfaces within the cooling compartment, but disregard that phase of it for the moment—constructed and arranged to maintain its heat-conducting surfaces, that is the tube itself, the expander?

A. I do not accept that. The heat-conducting surfaces out of the expander are the surface of the liner, Exhibit 117. [911]

(Testimony of Norman S. Parker.)

Q. (By Mr. Byron): Well, now, let's see. Here is what the claim says—

A. Those are surfaces which abstract heat from the moist cold compartment.

Q. Well, that's quite an argument. Now, let me ask you a question. I am referring to the element of the claim here, "A cooling refrigerant expanded."

A. All right.

Q. Would you point it out here? "Having heat-conducting surfaces." Now, it has heat-conducting surfaces. It has them elsewhere, but it has them here? A. Yes.

Q. All right. That's as far as I want to go. "Heat-conducting surfaces within said cooling compartment." Of course, they're not there, but let's forget that. And now, referring to the cooling refrigerant expander constructed and arranged to maintain its heat-conducting surfaces, that means the cooling refrigerant expander having its heat-conducting surfaces at a temperature above 32 degrees Fahrenheit. Now, you have agreed that the refrigerant passing through that coil is around zero degrees. That being true, how could the surfaces of this coil be above 32 degrees?

A. I don't find the language that you have been reading in that claim calling for the surfaces of the coil or duct itself being at 32 degrees. What it calls for are heat exchange [912] surfaces.

Q. That calls for that element "a cooling refrigerant expander," and you have agreed that that may be an evaporator or a coil. Now, a cooling

(Testimony of Norman S. Parker.)

refrigerant expander having heat-conducting surfaces within the cooling compartment and now the cooling refrigerant expander and constructed and arranged—is constructed and arranged to maintain its heat-conducting surfaces—these are heat-conducting surfaces, or a part of them—at a temperature above 32 degrees Fahrenheit. Now, I say, that in view of the fact that the volatile refrigerant passes through there as zero degrees Fahrenheit, this coil and the surfaces thereof will be below and far below 32 degrees Fahrenheit, correct?

A. No, I don't understand it. Well, perhaps I can clarify my position by saying that I think you are asking me all these questions on the assumption that the expander is limited to a section of pipe. To me the expander, term "expander" in those claims means that pipe plus whatever heat exchange surfaces are attached or connected to it.

Q. Well, I will take that definition for the moment, just as long as you say, as you have now, that this coil (indicating) associated with the primary transfer plate is a part of the cooling refrigerant expander. You have said that now?

A. You mean the coil on the primary plate?

Q. Well, the coil here through which the refrigerant is [913] passing for freezing in the upper chamber and cooling in the lower chamber.

A. Of course, you have two sets—two paths. What I am talking about is the coil which is actually primarily secured to the primary transfer plate.

Q. Is there a condition in the operation of this

(Testimony of Norman S. Parker.)

accused device when the freezing refrigerant passes through the coil attached to the primary plate and also passes through the coils around the freezing compartment? A. Surely.

Q. O.K. Then under those conditions at that time the freezing refrigerant passing through that freezing coil is about zero degrees Fahrenheit, is it not? A. It is, yes.

Q. Now, then, it is said, and you agreed, that that portion of the freezing coil attached to the primary transfer plate is a part of the cooling system for the cooling compartment.

A. That's correct.

Q. All right. Now, I am talking about that part. This is what the claim says: "A cooling refrigerant expander constructed and arranged to maintain its heat-conducting surfaces," and it has heat-conducting surfaces there (indicating)? A. Yes.

Q. "To maintain it at a temperature above 32 degrees Fahrenheit." Now, that's an impossibility, is it not? [914]

A. That particular part of the expander does not have those characteristics.

Q. Thank you. Now, let us get back on the first part of that element of the claim, and I am referring back to this—and you can add to it as much as you want—"A cooling refrigerant expander having heat-conducting surfaces within (indicating) the cooling compartment." I would like to have you point that out.

(Testimony of Norman S. Parker.)

A. This freezer has surfaces and they are within the compartment.

Q. How is that possible?

A. Well, you could have two ways. In the first place, the heat from the interior of this compartment flows to and along these surfaces (indicating). They are in the compartment just as much as the face of these walls are in this room. So look at it another way: The space which is refrigerated within the structure is the space within the insulation and this liner here (indicating) is within the insulated area, and it is part, in my opinion, of the compartment.

Q. Well, I call it cooling compartment. A cooling compartment. And that is the compartment in which the food is placed for cooling purposes. That's correct, isn't it?

A. Well, that certainly——

The Court: Well, the man has disagreed with you.

Mr. Byron: What is that? [915]

The Court: Mr. Parker has a different definition.

Mr. Byron: I see.

The Court: And I think you have reached an impasse, and I think that point calls for expert testimony on your part. I don't see any useful purpose being served by continuing with him having one definition of a cooling compartment and you having a different one.

(Testimony of Norman S. Parker.)

Mr. Byron: Yes. Well, I would like to go just one step further, your Honor.

Q. I would like to have you trace out the connection between that portion of the freezing coil which you call a cooling coil and connect that to the cooling compartment some way or other.

A. What I call the cooling coil on the primary plate is put into heat-abstracting relationship with the locker—with the moist cold locker and a closely present primary transfer plate against the secondary transfer plate even with this perma gum between them to improve the heat transfer, and as Mr. Morton says in his patent, these plates can be described as fins and the second—the inner fin here in close heat transfer relation with the primary plate is further connected to the surface within the compartment.

Q. Well, now, wait a minute. We are going a little fast here.

Mr. Cunningham: Your Honor, I think he should be allowed [916] to finish his answer. He obviously hadn't finished.

The Court: Well, I was lost about a half hour ago. I haven't come back yet.

Mr. Byron: Well, if I interrupt you, Mr. Parker, you know I am sorry and I apologize. I always intend to be polite to you.

The Witness: I wasn't conscious of being interrupted. I am perfectly willing to have——

Mr. Byron: Thank you.

Q. Well, now, we have got the connection be-

(Testimony of Norman S. Parker.)

tween the primary transfer plate and what is known as the secondary transfer plate, you say, for extracting heat from the cooling compartment on the inside. Now, will you follow that heat-abstracting connection from this secondary plate?

A. That is the purpose of the system of secondary tubing which is a closed system with some refrigerant in it, which I believe I described on my direct examination and which has coils on the face of the front—front face of the secondary heat transfer plate on this exhibit, Defendants' Exhibit 17, which——

Q. 117? A. 117.

Q. All right. Now, you have got the coil of the secondary system connected to the secondary transfer plate. Now, will you follow through, telling us where these cooling coils go [917] then?

A. The cooling coils include a structure in which there is a down pipe to the bottom of the back of this sleeve, and there is a little well, you might say, in the bottom of that where liquid refrigerant from the secondary system can gather. Then——

Q. I would suggest now, if you don't mind, that you might refer to your Exhibit 8-A-1. It may be helpful to you.

The Witness: We have a little trap or bend here marked, which I marked 74, and this down pipe will deliver refrigerant to it under conditions when the liquid in the refrigerant of this—rather, when the refrigerant of this secondary circuit is in liquid form. Then the liquid can become vaporized

(Testimony of Norman S. Parker.)

and rise in these pipes to where it enters the coil which is in the heat transfer relation with the secondary plate, and it can then be cooled by the passage of refrigerant through the coil 102 on the primary plate and as it becomes cool it may become liquefied and flow down. So you have a closed circuit there with a certain amount of refrigerant in it, and a body of refrigerant, however, which is in that circuit and never travels out of it. There is no liquid or fluid connection between the secondary circuit and the primary circuit.

Q. There is what?

A. No fluid connection. There is only a heat transfer connection between the two plates or, what Mr. Morton called, [918] fins in his patent.

Q. Now, this is the accused device, and it has what is known as a secondary system. That's correct?

A. That's right.

Q. And that is what you have just described?

A. That's what I have described.

Q. And in other words, there are two separate and distinct circuits, one known as the primary circuit in which the freezing refrigerant passes from the liquefying unit up through and around the freezing compartment for freezing that compartment—

A. (Witness nods head.)

Q. —and then there is the secondary system in which we have the closed circuit pipe around the back and sides of the cooling compartment. That's correct, isn't it?

(Testimony of Norman S. Parker.)

A. That's correct. All it does is deliver heat to the transfer plate.

Q. Now, I would like to use the blackboard for a minute.

(Whereupon the blackboard was put into position for use of counsel.)

Q. (By Mr. Byron): To put that in a simplified diagram in the patent suit we have this element which we will call the liquefying unit, the pump, and the compressor. Then we have a connection up to the freezing compartment. That is a freezing coil? [919]

A. (Witness nods head.)

Q. And then that is connected in series to a cooling coil and then that refrigerant—liquid refrigerant is changed to a vaporized heat, and that vapor returned to the original source, the motor compressor. That's correct?

A. I am not sure that that——

Q. This is the patent in suit.

A. Oh. The patent in suit?

Q. Yes. A. Yes. Correct.

Q. Now, this is the—— A. That's Potter.

Q. Potter, yes. Is that the freezing coil (indicating)?

A. And that is the cooling coil.

Q. This is the cooling coil? A. Right.

Q. And this is the cooling compartment up here, and this is the freezing compartment here (indicating)? A. Correct.

Q. Now, then, let's go to the accused device. We start off with the same motor compressor outfit, call

(Testimony of Norman S. Parker.)

it liquefying unit, and then we have a primary coil, a freezing coil, which comes up around the freezing compartment over the freezing compartment and under it for freezing material within. That's correct, isn't it? A. Right. [920]

Q. And then this coil returns to the liquefying unit again? A. So far right.

Q. Yes. Now then, we have in addition a secondary circuit, and this is the secondary circuit which is—I think I can do a better job on that.

The Court: Give him the eraser.

Mr. Byron: This is all right. Thank you.

Q. We have a coil in this form. This is the secondary coil, isn't it, for cooling purposes?

A. That's right.

Q. Now, this coil is entirely separate from this coil?

A. So far as any passage of liquid is concerned, it is.

Q. That's right. The liquid in the primary coil stays in the primary coil and circulates around it?

A. That's right.

Q. And the refrigerant in the secondary coil stays in it—— A. (Witness nods head.)

Q. ——in the secondary coil, it never gets out?

A. That's right.

Q. So that in the accused structure we may use two entirely different refrigerants?

A. Yes, you could.

Q. That's right. Well, now, structurally those are different, are they not? A. Quite. [221]

(Testimony of Norman S. Parker.)

Q. I think that's all I want on that.

The Court: Mr. Parker, I think you can take your seat if you want to.

Q. (By Mr. Byron): And they function differently don't they? That is the actual operation of it is different? A. In detail, yes.

Q. Yes. Now, this may be a slight resume, but the accused structure is what is known as a cold wall refrigerator, is it not?

A. I think that's a fair statement.

Q. And in the Potter patent there is a finned coil arrangement? A. That's correct.

Q. And they are structurally different, are they not?

A. Yes; in detail. They perform the same function, but they are structurally different.

Q. They are structurally different, are they not?

A. Right.

Q. Now, as a matter of fact, they function differently too, don't they? A. In what sense?

Q. Well, I am asking you.

Mr. Cuninghame: I object, your Honor. He is——

Mr. Byron: Well, I am asking the questions; the witness answers questions.

Mr. Cuninghame: He is asking you to clarify your question [922] "In what sense."

Mr. Byron: He understands.

Mr. Cuninghame: I think he does not.

The Court: Objection overruled. This man is an expert. This is cross-examination.

(Testimony of Norman S. Parker.)

The Witness: Can I have that question again?

Q. (By Mr. Byron): The finned coil mechanism in the cooling compartment of the patent in suit or in the structure of the patent in suit functions specifically differently from the cold wall refrigerator in which it is cooled by a different means. That's correct, it functions differently?

A. Well, if you are talking in terms of function, they perform the same function which is to provide an extended heat transfer surface through which heat is abstracted from the storage space. In that sense they function the same.

Q. Their functional action, then, we will say, is different, then, is it not?

A. You mean the mechanics are different?

Q. All right, the mechanics. So they function differently mechanically?

A. Well, that's one of these questions that is a little bit hard to answer Yes or No. To me they do not function differently, but they have mechanical differences. In other words, in both of them there is an extended heat transfer surface which abstracts heat from the interior of a compartment, and in that sense they function precisely the same. Mechanically, [923] they are different in that obviously 60 or 30 fins on edge with a pipe through them don't look like and are not mechanically the same as a cold wall in which there is piping outside of the extended surface of the cold wall. [924]

Q. And, specifically, they do not act alike, do they?

(Testimony of Norman S. Parker.)

A. I would say they act alike as far as abstracting heat is concerned.

Q. I know, act alike specifically in extracting heat from the cooling compartment?

A. I would say that they acted alike in that respect.

The Court: Are you trying to find out that the end result is the same but they act differently in order to reach that result?

Mr. Byron: Yes.

The Court: Ask him the question. Is that true?

Mr. Byron: All right; you have the question.

The Witness: I would say the end result is the same, but the nature, mechanical nature of the surface presented to the air in the cooling compartment is different mechanically than the extended surface of Potter.

Q. (By Mr. Byron): Now, your attention again is called to the Davenport patent, 1,731,711, which is in evidence, I believe. Is it?

(Discussion off the record.)

Mr. Byron: I will offer it in evidence now.

Mr. Cuninghame: No objection, your Honor.

The Court: I thought that the Davenport was admitted?

Mr. Byron: I think so. Perhaps not.

The Court: Davenport is admitted now. That is the [925] one with the 711, ending with the figures 711?

Mr. Kolisch: This is 109 for Identification.

(Testimony of Norman S. Parker.)

The Witness: 1,731,711.

(Thereupon, the document, Davenport Patent 1,731,711, heretofore identified as Defendants' Exhibit 109 for Identification, was received in evidence.)

Mr. Byron: '711 is the one we are talking about.

The Court: Mr. Parker has that in his hands now. Do you have a copy, Mr. Cuningham, of the Davenport?

Mr. Cuningham: No, your Honor, we did not come prepared for this.

The Court: Give him a copy of Davenport, 109. Was Davenport cited by the defendants in their answer?

Mr. Byron: Yes, your Honor.

The Court: Well, then, you should have come prepared.

Mr. Cuningham: Of course, your Honor, my remarks apply to this. This is, you will notice, October 15, 1929, the same as with the finned patent.

The Court: While we are waiting for Mr. Byron to find the patent, I would like to ask a question that has not been made clear to me. Mr. Byron read a portion of Claim No. 2, but from time to time he would interject his own remarks about the wording, and so I did not get it clear, but this is the portion, I believe, you read: [926]

"A cooling refrigerant expander having heat-conducting surfaces within said cooling compart-

(Testimony of Norman S. Parker.)

ment and constructed and arranged to maintain its heat-conducting surfaces at a temperature above 32 degrees F. while withdrawing heat from said compartment."

Do I understand that the disagreement between you and Mr. Byron is that you call the compartment not only the space within the walls but also the space outside the walls but within the box, the outer box; is that right, Mr. Parker?

The Witness: I would say within the insulation.

The Court: Within the insulation?

The Witness: Yes, same temperature conditions.

The Court: Therefore, when they refer to surfaces within said cooling compartment you claim that it does not make any difference whether the coils are inside of the compartment or outside of the compartment?

The Witness: Yes, your Honor, that is my position.

The Court: You also made a statement that I did not understand in answer to a question by Mr. Byron dealing with, I believe, this statement:

"A cooling refrigerant expander having heat-controlled surfaces and arranged to maintain its heat-conducting surfaces at a temperature above 32 Fahrenheit." [927]

You said that that was impossible in the accused structure. Now, is that correct?

The Witness: I do not remember that, your Honor. I do not remember how that was.

The Court: You said something about impossi-

(Testimony of Norman S. Parker.)

bility. I was wondering whether you were referring to the fact that the description in Claim No. 2 was impossible of realization or whether under the make-up and the structure of the accused machine it was impossible for that to happen.

The Witness: I don't remember that language, your Honor. I am not clear on that as to what was said.

Mr. Byron: I remember it precisely.

The Court: Well, will you tell us then.

Mr. Byron: The point was that the section of the freezing coil which they choose to say also is a part of the cooling coil system, the cooling chamber, has a refrigerant passing therethrough which, when the machine is in operation, is at least zero degrees Fahrenheit. It is in a freezing condition. Now, the inside of that coil, being a part of the cooling coil as they explain it, cannot be maintained above 32 degrees if the refrigerant passing therethrough is zero degrees. It just cannot be. Now, that is the point.

The Witness: And as to that, the surface of that, I would agree that is a proper statement. In other words, the surface of the tubing at the rear of the primary transfer [928] plate is certainly at a temperature 32 degrees Fahrenheit, so we are in agreement on that.

The Court: Well, what does that mean, Mr. Parker?

The Witness: That just means that at a point outside of the moist cold locker or moist cold stor-

(Testimony of Norman S. Parker.)

age container there is a part of the tubing through which the refrigerant or coils, the moist cold container, flows which is at a temperature below 32 degrees Fahrenheit; but if I correctly understand the statements in the service manuals of the Admiral Company, it is only under unexpected and undesired conditions that the surface within the sleeve within which the food is put ever reaches a temperature below 32 degrees Fahrenheit, and that is the surface, of course, which is in contact with the food.

The Court: Are you talking about the accused structure when you said it was impossible, or are you talking about the description in Claim No. 2?

The Witness: Well, I am talking about the structure as shown in the exhibit, the physical exhibit before us at which Mister——

Mr. Byron: That is Defendants' Exhibit 117-A.

The Court: As I understand it, the purpose of this examination is to show that the accused structure does not do something which the claims require.

Mr. Byron: Does not do something; does not have [929] something; both.

The Court: All right; go ahead.

Mr. Byron: I have got a point again, only I thought of something else just a minute here, thought that your Honor asked about.

(Discussion off the record.)

(Testimony of Norman S. Parker.)

Mr. Byron: Has that been clarified in your mind, your Honor?

The Court: Yes. I thought if it is clarified in my mind there is a chance of its being clarified in the minds of the jury if they understood the Court.

Mr. Byron: I am prompted to go ahead and talk about it some more, but I do not know that I shall.

The Court: Do it with your own witnesses.

Q. (By Mr. Byron): Well, we were just talking before we entered into this general discussion about the cold-wall type of refrigerator such as exemplified by the accused refrigerators and then the finned-coil type as exemplified by the patent in suit, and you stated that, structurally, they were different. Functionally, you did not, were not quite sure.

A. Oh, yes; I was quite sure.

Q. Well, I mean they act differently with these structures. It is a compound proposition. Now, they are two separate types, distinguished, aren't they?

A. Yes. [930]

Q. It was in that connection that I was about to call your attention to the file history of the original patent and first to Page 13, and the only reason I am calling attention to that page is that the original 14 claims in this Bronaugh-Potter patent were rejected on the Davenport patent, 1,731,711. That is one that we have discussed briefly, and I brought out that it had a freezing compartment and a cooling compartment, and in the freezing compartment

(Testimony of Norman S. Parker.)

there was a freezing coil, and in the cooling compartment there was a cooling coil, you could call it, or cooling expander, connected in series, and that expander takes the form of a wall of the cooling compartment and takes the form of two spaced metal plates between which the refrigerant passes. That is a cold-wall refrigerator, isn't it, the Davenport, 1,731,711? A. Yes, it is.

Q. With that understanding, your attention is directed to Page 30 of the file wrapper, and this is what Mr. Potter and Mr. Bronaugh have to say with respect to that Davenport patent:

“As for the Davenport patent, the evaporator 5—” That is this plate which forms a part of the cooling wall, cooling compartment, and this is what Bronaugh and Potter say with respect to the Davenport patent in question. [931]

The Court: On the patent of Potter, second to the last line.

Mr. Byron: That is right.

“As for the Davenport patent, the evaporator 5 is not a coil, and it is impossible with Davenport's construction to obtain the results which applicants obtain with their non-frosting coil in the cooling chamber.”

You see those remarks?

The Witness: Yes, they are there.

Q. (By Mr. Byron): There are two more Davenport patents shown on this Defendants' Exhibit 114-L. One is a Davenport Patent 1,769,118, and the other is 1,726,344, and in the 1,726,344 there are

(Testimony of Norman S. Parker.)

a series of loops or a coil behind the cold plate of the refrigerator and behind the cover plate of the cooling compartment which constitutes a cold-plate structure; does it not? A. Yes.

Q. And the cooling coils in that patent, 1,726,344, behind the shell or liner of the cooling compartment are arranged substantially the same as the coils around the cooling compartment in the accused structure; right?

A. It has a different form but similar relationship.

Q. Well, they are cooling coils?

A. That is correct, cooling coils outside of the liner. [932]

Q. Yes, and they are both cold-wall structures?

A. That is right.

Mr. Byron: I would like to offer in evidence the three Davenport patents; first, the 1,731,711 is in, as I understand it. Then Davenport Patent, 1,769,118 is Defendants' Exhibit 108.

The Court: 108.

Mr. Byron: Yes; and Davenport——

The Court: Wait a minute. Any objection?

Mr. Cunningham: Yes, your Honor; the same objection you will notice as to the dates, July 1, 1930, and August 27, 1929.

Mr. Byron: The filing date, your Honor, the filing date of the Davenport patent, 1,769,118, is April 28, 1927.

The Court: Objection overruled. The patent may be admitted. 108 is admitted.

(Testimony of Norman S. Parker.)

(Document, Davenport Patent No. 1,769,118, previously identified as Defendants' Exhibit 108 for Identification, was received in evidence.)

Mr. Byron: And the Davenport Patent 1,726,-344.

Mr. Kolisch: That is Defendants' Exhibit 107.

The Court: What is the filing date?

Mr. Byron: For that the filing date is April 29, 1926.

The Court: Any objection? [933]

Mr. Cunningham: Oh, yes, your Honor. I assume that when you say they are admitted they are admitted for this limited purpose covered by one of our requested instructions?

The Court: This particular exhibit was not introduced on any restricted basis, but what is the purpose of the offer, Mr. Byron?

Mr. Byron: It is to show that the accused devices are following the prior art and not the Potter patent. We are following something earlier. We have two different types of refrigerators, a cold-wall type which these three Davenport patents show and as the accused structure shows as distinguished from the patent in suit which shows the finned-coil type.

The Court: They may be admitted. What is the number of that, 107 and 108?

(Davenport Patents 1,726,344 and 1,731,711, previously identified as Defendants' Exhibits

(Testimony of Norman S. Parker.)

107 and 109, respectively, were received in evidence.)

Q. (By Mr. Byron): Your attention is directed to the file wrapper and the contents of the Thomas I. Potter Patent 2,219,789.

Mr. Cuninghame: Now, if your Honor please, I object to that for any purpose. It has nothing to do with the patent in suit. It has nothing whatsoever—years later. It has [934] nothing to do with the plaintiff. There is not a statement in it that could be binding upon the plaintiff. It has absolutely no relevancy to any issue in this case.

The Court: I have never heard of the patent.

Mr. Byron: I will prove to the contrary of that, your Honor.

The Court: Is this a later patent?

Mr. Byron: It is a later Potter patent, but it shows after premature thought and far and before this litigation was ever contemplated he made certain statements with respect to the cold-wall type and the finned-coil type——

The Court: Objection overruled. It may be admitted for the same—on the same grounds that I admitted the other patent.

Mr. Cuninghame: I note an exception to that, your Honor. This has no connection with the plaintiff.

The Court: That is what they said when you offered your patent.

(Testimony of Norman S. Parker.)

Mr. Cuningham: On the contrary, the patent is that of the chief engineer of the defendant.

The Court: And this is the patent of Mr. Potter himself. Objection overruled.

Mr. Byron: 118, we offer it in evidence.

(Document, Potter Patent 2,219,789, previously identified as Defendants' [935] Exhibit 118 for Identification, was received in evidence.)

Mr. Cuningham: This is the whole file wrapper or the patent?

Mr. Byron: The whole file wrapper.

The Court: Wait a minute. Mr. Byron, I think that the patent is probably admissible even on this time as a basis for interrogating Mr. Parker, but it seems to me that we would save a lot of time if you would put those files in on your case in chief. I think you will go a lot faster. [936]

Mr. Byron: That's right, your Honor. But if I may have three minutes on this I will conclude, because it's very pertinent.

The Court: Are you offering the file wrapper for admissions made by Mr. Potter?

Mr. Byron: Yes. To show what he stated about the cold wall type of refrigerator.

The Court: I am not going to admit it. You can have it identified at this time and then we will discuss the admissibility at a later time.

Mr. Byron: All right. But I can talk about it under those circumstances? It's marked for identification as Defendants' Exhibit 118. Now——

(Testimony of Norman S. Parker.)

The Court: I thought that you wanted it identified for the purpose of propounding a question.

Mr. Byron: That's right, I do.

The Court: Go ahead.

Mr. Byron: And to refute his conclusion as to infringement.

The Court: Go ahead.

Q. (By Mr. Byron): Now, your attention, Mr. Parker, is invited to page 25 of this file wrapper, and particularly to the rejection of claims on the Gibson patent 2,073,741.

Mr. Cuninghame: Now, if your Honor please, I think we ought to have the Gibson patent in the case. [937]

Mr. Byron: We will get it. We will offer it right now. Glad to have it in.

The Court: All right. Do you both join in offering the Gibson patent?

Mr. Cuninghame: No, your Honor. I think it's not prior art. I think we have disposed of it but I——

Mr. Byron: I am not saying I am using it as prior art. That is the Gibson patent 2,073,741, and I will offer it in evidence as——

The Court: I will take that one under advisement.

Mr. Cuninghame: No objection.

The Court: Well, then, the ruling is different. It may be admitted.

The Clerk: 119-A.

Mr. Byron: Now, then, is that the——

(Testimony of Norman S. Parker.)

Mr. Cuningham: Which of the two Gibson reissues or the original are you putting in?

Mr. Byron: This is the original and we have put in the reissue patent which is set up in the answer.

Mr. Cuningham: As the file wrapper?

Mr. Byron: No. The file wrapper is of the Potter patent. I don't know the number. It's 118 for identification.

The Witness: It's 221——

Mr. Cuningham: You are not offering the file wrapper of the Gibson patent?

Mr. Byron: I haven't yet. [938]

Mr. Cuningham: You have it marked on your list of exhibits.

Mr. Byron: I am not saying we are going to offer it.

Mr. Ramsey: 119-A, 119-B, and 119-C.

Mr. Cuningham: Those I read are not the file wrappers, not the patent themselves. You have——

Mr. Byron: We offer the file wrappers, and I will offer the copies of the patents also.

Mr. Cuningham: That's unnecessary, your Honor. We have got it in twice. The question is whether you put the whole file in or what he didn't mark.

The Court: All right.

Mr. Cuningham: It isn't any proof of anything as far as what was filed originally. The patent is what issued and not what was filed.

The Court: Mr. Byron——

Mr. Byron: Yes, sir.

(Testimony of Norman S. Parker.)

The Court: —you offered Gibson. What is the exhibit number of Gibson?

Mr. Cuningham: 119-A, 119-B, 119-C.

The Court: Is that one patent, or are there more than one patent?

Mr. Cuningham: It is one patent and two re-issues, and there is no objection to the file wrappers going in.

The Court: And the file wrappers include a copy of the [939] patent that was issued?

Mr. Cuningham: Of all three patents that were issued for this one invention.

The Court: Are you offering that?

Mr. Byron: Yes.

The Court: All right. They are admitted, all three file wrappers.

(The documents were thereupon admitted in evidence as follows: File Wrapper, Reissue 2,073,741, Gibson, as Defendants' Exhibit 119-A; File Wrapper, Reissue 21,040, Gibson, as Defendants' Exhibit 119-B; and File Wrapper, Reissue 21941, Gibson, as Defendants' Exhibit 119-C.)

Q. (By Mr. Byron): Now, Mr. Parker, there has been quite a span since I started, so I will ask you to refer to the file wrapper of the later Potter patent No. 118 for identification, and I will call your attention to one page there where certain claims of the Potter patent were rejected on various

(Testimony of Norman S. Parker.)

references including the Gibson patent 2,073,741. Right?

A. Claims 1 to 6 and 8 are rejected as reading directly on Gibson, and Gibson is given above as 2,073,741, Claim 7 is rejected on Gibson also.

Q. Well, that's sufficient. Now, then——

The Court: Wait a minute, Mr. Byron. I thought that [940] this was done for the purpose of impeaching Mr. Potter.

Mr. Byron: It is, and just one more question and it will.

The Court: All right. But you have to show some acquiescence or something and a ruling by the examiner rejecting a claim is not an admission on the part of Mr. Potter.

Mr. Byron: And your Honor, it's to impeach this witness to a certain extent on the question of results that are obtained in the accused cooling compartment.

The Court: How are you impeaching Mr. Potter by the ruling of an examiner?

Mr. Cunningham: Mr. Parker?

The Court: Mr. Parker.

Mr. Byron: Well, I am just showing that he says that you get the same results in the cooling compartment of the Potter refrigerator and in the cooling compartment of the accused refrigerator, and I want to show that Mr. Potter in presenting a case before the patent office entirely disagreed.

The Court: Mr. Potter?

Mr. Byron: Yes.

(Testimony of Norman S. Parker.)

Mr. Cuningham: Your Honor, what could that have to do possibly with Mr. Parker? What can it have to do with the case?

Mr. Byron: I will ask whether or not Mr. Parker then [941] agrees or disagrees with Mr. Potter.

Mr. Cuningham: Furthermore, your Honor, this wasn't even notice under the statute. We have no notice of this patent.

The Court: Have you—did you notice this one in your pleadings?

Mr. Cuningham: No, sir.

The Court: Did you show them?

Mr. Cuningham: The answer is No, sir, nowhere. And it's not in compliance with the 30-day statute.

Mr. Byron: I understand we have an order on that.

The Court: An order?

Mr. Cuningham: That's news to me. I don't know about any order.

Mr. Ramsey: If the Court please, there was notice more than 30 days and I actually presented a motion and I understand the order was signed and included Gibson and Lundgard.

Mr. Cuningham: That is not what we are talking about. I am talking about this Potter—

The Court: Thomas I. Potter. The new Potter?

Mr. Byron: We can take it subject to notice and they can do as they please about it.

The Court: We are going to take a recess now. Take a recess for ten minutes.

(Testimony of Norman S. Parker.)

(Whereupon the jury was excused for a ten-minute [942] recess.)

The Court: First I want to say that I do not regard a statement by an examiner rejecting a claim as being an admission against Mr. Potter.

Mr. Cuningham: Yes.

The Court: If Mr. Potter acquiesces in a statement or makes an admission which appears in a file wrapper the file wrapper is admissible for that limited purpose.

Mr. Byron: That's all I want.

Mr. Cuningham: If your Honor please, Mr. Potter is not on trial. This patent has nothing to do——

The Court: You don't wait until I finish, Mr. Cuningham.

Mr. Cuningham: I am sorry. I apologize.

The Court: Under our rule and the rule I announced previously with the exception of the provisions inserted by Mr. Cuningham in the pretrial order, unless an exhibit is noted prior to the time of the trial, it may not be used for any purpose whatsoever, with the possible exception that if a party is caught by surprise. Now, I don't think that the defendants here are being caught by surprise by anything that Mr. Parker has said, and therefore, I don't see that this document is admissible on either of those two grounds.

Mr. Byron: Your Honor, I am caught by surprise, very much so, to have Mr. Parker's interpretation of the claim as applied to the accused struc-

(Testimony of Norman S. Parker.)

ture. That is so far remote [943] from my thinking that I didn't think it was possible. And in that sense I am taken by surprise.

And Mr. Parker has said certain things about the structure and operation, the functioning, and particularly the results in the accused device, what happens in the cold food compartment of the accused device, and I want to show that there are authorities such as Potter who do not agree with Mr. Parker.

Mr. Ramsey: May I add something to that?

The Court: Well, I'm not going to make Mr. Potter into an expert. He is an expert salesman but I don't think he is an expert engineer, and I am not going to permit his learning—engineering learning—to be used as a basis for impeaching Mr. Parker.

Mr. Ramsey: If the Court please, may I note that this is in the pretrial order? This particular document was 118 of the pretrial order.

Mr. Cunningham: We objected to it in the pretrial order.

Mr. Ramsey: It's not a question of surprise.

Mr. Cunningham: Wait a minute, if your Honor please. It is under Section 282, Chapter 28. The 30-day notice was not given with respect to this patent. Of course, it has no relevancy whatsoever. I don't know why I object to it except that it just encumbers the record and it may be prejudicial, it seems to me, if they try to use it in a fashion—but I [944] think they can show——

(Testimony of Norman S. Parker.)

The Court: Well, I want to say that this satisfies the local court rules in all respects if it was listed as an exhibit. I was under the impression, from what you said, Mr. Cuningham, that it was not listed as an exhibit.

Mr. Cuningham: Well, if your Honor please, and I quote, "In actions involving the validity or infringement of a patent the party asserting invalidity or known infringement shall give notice in the pleadings or otherwise in writing to the adverse party at least 30 days before the trial."

The Court: Oh, Mr. Cuningham, the purpose of that section is altogether different from the purpose for which this patent is being offered. This patent is not being offered to show anticipation or some other thing in accordance with the purpose of the section which you are reading.

This exhibit is being offered solely for the purpose of getting some admissions from Mr. Potter or to in some way impeach Mr. Parker.

Now, I don't know how it's impeaching Mr. Parker. Now, we are coming to the second basis. Tell me again, Mr. Byron, what do you say that this exhibit shows?

Mr. Byron: Well, this exhibit, your Honor, shows that certain claims—and I don't care about that particularly—were rejected in a Potter application on the Gibson patent. The Gibson patent showed pretty well what the accused structure [945] is.

(Testimony of Norman S. Parker.)

The Court: Why wouldn't this be better to come in on your case in chief?

Mr. Byron: Well——

The Court: What is the purpose of interrogating Mr. Parker with reference to it? It just takes a lot longer to put in your case through adverse witnesses.

Mr. Byron: I know. But Mr. Parker has taken the position that you get the same results in the cooling compartment of the accused device as you get in the cooling compartment of the Potter patent, and this——

The Court: Suppose some——

Mr. Byron: ——and this statement is to the contrary.

The Court: Suppose some examiner in the patent office says that Mr. Parker is mistaken? So what?

Mr. Byron: I don't worry about the examiner in the patent office, I am talking about what the attorneys for Potter said in trying to get the claims allowed and denouncing the accused structure; that is, the cold wall type, and saying that they are inferior and cannot operate and get the results that the patent in suit gets.

The Court: Now, the only basis for the statement is that Potter and Potter's then attorneys were more expert than Mr. Parker.

Mr. Byron: Well, I wouldn't like to say that because [946] Mr. Parker is quite an expert.

The Court: Really, I have been trying to give very wide latitude for cross-examination and even

(Testimony of Norman S. Parker.)

for original examination, but I don't think that this is admissible, Mr. Byron.

Mr. Byron: That is on cross-examination.

The Court: On cross-examination, because I don't think it—it might have been proper when you were interrogating Mr. Potter himself to show that Mr. Potter didn't know very much, but I just can't see the relevancy in interrogating Mr. Parker.

Now, it couldn't be filed after estoppel because this is the wrong file wrapper. Well, I am going to sustain the objection and we will consider it on the defendants' case in chief.

Recess for about five minutes.

(Recess)

(The following proceedings were had in open court within the presence of the jury:)

The Court: Go ahead, Mr. Byron.

Q. (By Mr. Byron): On a quick resume with respect to one phase of this case in the patent suit there is only one refrigerant, right?

A. That's right. [947]

Q. That sole refrigerant first passes through the freezing coil 22 and then through the cooling coil 25?

A. Yes.

Q. The two coils, 22 and 25, are connected in series?

A. Correct.

Q. In the accused there are two separate and distinct refrigerants?

A. That's right.

Q. One refrigerant for the freezing coil and a second and separate refrigerant for the cooling coil?

(Testimony of Norman S. Parker.)

A. I wouldn't state it that way.

Q. There is a second refrigerant in connection with the cooling of the cooling compartment?

A. That's correct.

Q. And in the accused one refrigerant for the freezing coil passes through the motor compressor set, through the freezing coil for the freezing locker and back to the motor compressor set?

A. That's correct.

Q. In the accused the second and separate refrigerant passes through a coil of a secondary transfer plate down through a single central stem and outwardly and upwardly through two lateral branches and back to the coil of the secondary transfer plate?

A. That's correct. [948]

Q. In the accused there is a primary refrigerant circulating system and secondary refrigerant circulating system?

A. That's correct.

Q. The primary is for freezing purposes for the freezing locker or freezing compartment—

A. It has that function.

Q. —the secondary is for cooling purposes for the main food compartment?

A. I would say that was incomplete because the secondary circuit supplies or delivers heat from the cooling compartment to the primary circuit to be removed by the primary circuit.

Q. Well, the secondary circuit is for cooling the cooling compartment and the food therein?

A. That's correct.

Q. Now, I want to discuss with you this element

(Testimony of Norman S. Parker.)

in the claim "A single liquefying unit associated with said expander and constructed and arranged to condense refrigerant expanded by heat extracted from both compartments." Now, the first part of that, "A single liquefying unit," in the patent in suit, the single liquefying unit comprises the motor 16, the compressor 15, and condenser 18 in the compartment 11. That's correct, isn't it?

A. I can't see the drawing. Would you repeat that, or I can come up there. [949]

Q. Did you get the question?

A. I didn't, no.

Q. All right. I will repeat it. In the patent in suit the single liquefying unit comprises the motor 16, the compressor 15, condenser 18 set in this compartment 11. A. Right.

Q. In the accused refrigerator there is a liquefying unit in the circuit of the primary or freezing coil or expander. That's correct? A. Yes.

Q. That is shown at the bottom of Plaintiff's Exhibit 8-A-1? A. Right.

Q. In the accused refrigerator the refrigerant flowing to the secondary or cooling coil or expander does not pass through the liquefying unit, does it?

A. It does not.

Q. In the accused refrigerator the refrigerant flows through the secondary or cooling coil after it becomes vaporized in the heat-absorption section of the secondary, said vaporized refrigerant is recondensed in the coil section of the secondary system at the secondary cold transfer plate, is that correct?

(Testimony of Norman S. Parker.)

A. Yes; that's correct, being condensed by the refrigerant that passes across the primary plate [950] 104.

Q. So that in the accused refrigerators there is a liquefying unit in the freezing expander circuit, and there is another liquefier or condenser in the cooling expander circuit? A. Yes.

Q. A volatile refrigerant circulating through said expanders being the sole heat-extraction medium. Now, in the patent in suit there is disclosed only one volatile refrigerant, and that one refrigerant passes through a circuit and passes through both the freezing coil and the cooling coil?

A. Correct.

Q. And that is the sole extracting medium?

A. That is right.

Q. In the accused refrigerators there are two separate and distinct volatile refrigerants, as we have brought out several times?

A. That is right.

Q. In the accused refrigerators one volatile refrigerant flows exclusively through a freezing coil or expander and constitutes the medium for extracting heat from the freezing compartment through said freezing coil and expander.

A. May I have that again. I wasn't sure I got it all.

Q. In the accused refrigerators one volatile refrigerant flows exclusively through the freezing coil and constitutes the medium for extracting heat from

(Testimony of Norman S. Parker.)

the freezing compartment [951] through said freezing coil?

A. I wouldn't say that that flowed exclusively through the freezing coil. The coil on the transfer plate 102 is the coil which withdraws heat from the secondary transfer plate, and it flows through that, also, and it does extract the heat from the frozen food locker.

Q. Well, but the one refrigerant in the primary circuit is the sole means for extracting heat from the freezing compartment?

A. That is correct.

Q. Now, in the patent in suit the thermostat is responsive to the temperature in the cooling compartment; is that correct? A. Yes.

Q. In the accused refrigerators there is no thermostat in either the freezing compartment or the cooling compartment, is there?

A. The thermostat structure is not actually in there. There are bulbs responsive to temperature of the two compartments.

Q. But they are not in the compartment?

A. They are not in the interior of the compartments; they are within the sleeves, just outside the sleeves. In that sense they were in the insulation, and, in my opinion, that would be in the [952] compartments.

Q. That would bring up the same question of what is a cooling compartment and what is a cabinet?

A. That is right; and on that we differ.

(Testimony of Norman S. Parker.)

Q. In the patent in suit it talks about the flow of heat into the cooling compartment 14 and the rise of temperature of the air therein, that the thermostat 31 functions to start a liquefying unit before the freezing compartment approaches a non-freezing value. A. That is correct.

Q. In the accused refrigerators there are two thermostats or temperature controls, one being a primary control located outside of the freezing compartment and the other being a secondary control located outside of the cooling compartment; is that correct?

A. I would substitute "sleeve" for "compartment" in those two statements.

Q. Well, that is awfully technical, don't you think?

A. No, I do not think so at all.

Mr. Cuningham: If your Honor please——

Mr. Byron: I am asking for——

Mr. Cuningham: These are obviously tricky questions.

Mr. Byron: Tricky questions? I think they are tricky answers.

The Court: Both remarks of Mr. Cuningham and Mr. Byron are stricken. [953]

Mr. Byron: Good.

Mr. Cuningham: Thank you, your Honor.

Mr. Byron: I thank you, too. We are all happy about it.

Q. The primary control outside of the freezing compartment controls the starting of the motor com-

(Testimony of Norman S. Parker.)

pressor set to maintain below-freezing temperature in the freezing compartment in the accused refrigerators; that is correct, is it not?

A. Will you read that again? I think there was a noise outside. I couldn't hear.

Q. Yes. The primary control of the freezing compartment controls the starting of the motor compressor set unit to maintain a below-freezing temperature in the freezing compartment in the accused refrigerators and independently of the temperature in the cooling compartment.

A. I am not so sure that it is independently of temperature of the cooling compartment.

Q. Your attention is directed to Plaintiff's Exhibit 4-CC-2 and to Pages 2 and 3. I would like to ask you to refer to that (presenting pamphlet to the witness).

Mr. Cuninghame: That is Pages 1, 2, 3, or 2, 3, 4, what parts?

Mr. Byron: I will tell you.

The Court: Perhaps Mr. Byron can point it out to Mr. Parker. [954]

The Witness: Well, 2 and 3 is what I have to look at.

As I understand the operation of the primary system, the primary control is operated—operates to make and break the motor compressor circuit, and the primary control in the Figure 5 shown at the upper right hand of Page 3 of the exhibit which you have handed me is located apparently on the upper locker tubing at a lower part of that tubing.

(Testimony of Norman S. Parker.)

Q. That is the freezing compartment section?

A. That is a freezing compartment section, so when the freezing compartment calls for refrigeration it actuates that control; however, I notice at Page 1 of this same exhibit, the second column, this statement:

“Also less insulation is used between the locker and moist cold compartment and, consequently, the top of the moist cold compartment is cooled somewhat by the bottom of the locker.”

In other words, there is an exchange of the heat between the two lockers, and the cold from the upper locker affects the lower locker, which is another way of saying that the heat from the lower locker affects the temperature of the upper locker, and, of course, a thinning of the insulation between those two sleeves comes at the point where the primary control is indicated in Figure 5 of this exhibit, Page 3, so I would think that there is a response not only to the heat in the freezing compartment but also to the [955] passage of heat from the lower compartment. In other words, this control which makes and breaks the motor compressor circuit responds to the temperature conditions, to some degree, within both sleeves.

Q. Now, going back, in the accused device there is a thermostat associated with the freezing compartment which operates the switch for starting the motor in action and causing it to stop; that is correct?

A. That is correct.

Q. Then there is associated with the cooling com-

(Testimony of Norman S. Parker.)

partment in the accused device another thermostat; is there not? A. That is correct.

Q. Now, the thermostat associated with the freezing compartment can set the system in operation for cooling the freezing compartment only?

A. No, that would hardly be a fair statement. The operation of the switch controlled in response to the temperature—or, rather, operated by the bulb outside of the sleeve of the freezing compartment, that control is the only control which directly controls the motor circuit. However, there is always some, or there would tend to be some passage of heat—wait a minute. I had better have your question again to make sure I am not wandering.

Q. I think so. Let me put it this way. Maybe it is simpler. The motor compressor set can be set into operation [956] for extracting heat from the freezing compartment only; that is correct—in the accused device?

A. I am not sure whether I fully understand or completely agree with that statement because I have said——

Q. Let me read it to you.

A. Oh, I know what it says. What I am referring——

Q. Now——

Mr. Cuningham: I object, your Honor. I think he ought to complete the answer.

Mr. Byron: I am just trying to be helpful.

The Witness: To be frank with you, it seems to

(Testimony of Norman S. Parker.)

me that the two sets of statements in this exhibit are contradictory. In other words, there is shown a setup or system which is described as if there were no influence on the thermostat by the temperature in the warmer compartment, but they go ahead and say that they have thinned out the insulation so that there is a heat exchange between the two compartments, and so, to me, there is a contradiction between those two sets of statements.

Q. That is your interpretation?

A. That is my interpretation.

Q. Now, just referring to Pages 2 and 3, however, of this particular exhibit, Plaintiff's Exhibit 4-CC-2, just those two pages, on just those two pages there are statements of the operation there in which heat is extracted only from the [957] freezing compartment when the thermostat associated therewith is actuated.

A. That is correct.

The Court: Is that the manual of Admiral?

Mr. Byron: That is right.

The Witness: It is an Admiral manual, your Honor.

Q. (By Mr. Byron): Then the thermostat associated with the cooling compartment operates on a valve for controlling the passage of the refrigerant through the refrigerating coil or through the refrigerating coil and the cooling coil; right?

A. That is correct.

Q. So that the heat may be extracted simultaneously from both the cooling compartment and the freezing compartment, and totally separate from

(Testimony of Norman S. Parker.)

that heat can be extracted from the freezing compartment only in the accused refrigerator; right?

A. That is correct.

(Discussion off the record.)

Q. (By Mr. Byron): Mr. Parker has referred to a long hypothetical question which was put to you this morning.

A. A very long one.

Q. I would like to ask a few questions about that.

In giving your opinion as to a reasonable royalty, did you take into account all of the factors set out in that [958] hypothetical question?

A. I tried to.

Q. Would your opinion be changed if it developed that some of the facts included in the hypothetical question were not correct, as a matter of fact; for example, that Potter or Bronaugh and Potter were not the first to disclose or provide in a single compact unit for household use a compartment for the preservation of fresh foods in a moist cold atmosphere above freezing temperature and a separate compartment for freezing and preserving other foods safely and for long periods of time in frozen state at temperatures substantially below the freezing temperature; that such refrigerators for the first time brought refrigeration of the kind claimed to the home; that such refrigerators for the first time provided a household unit wherein without the use of covered pans the moisture of the food stayed in the food instead of being dried out; that

(Testimony of Norman S. Parker.)

such refrigerators eliminated the frosting and defrosting of the chilling element in the compartment for the preserving of foods at temperatures above freezing and that such refrigerators——

The Court: Is this one question?

Mr. Byron: Yes. I said for example. Well, I will cut it off there. I will break it up.

The Court: I think Mr. Parker knows. Were all those [959] statements assumed by you to be true?

The Witness: Yes, your Honor.

The Court: Each and every one of them?

The Witness: That is right, your Honor, for the purpose of that answer.

The Court: In other words, you did not draw upon your own knowledge of the state of the market nor of the truth of the statements, but you solely assumed that all of the facts given to you were true?

The Witness: That is correct, your Honor.

The Court: Go ahead.

Q. (By Mr. Byron): In arriving at your answer to this hypothetical question, did you take into account competition in the particular field of household electrical refrigerators?

A. Was that mentioned in the hypothetical question? It is so long that I cannot remember it.

Q. I think it was.

A. If it was not mentioned in the question, I did not take it into consideration.

Q. Well, it spoke about other companies manu-

(Testimony of Norman S. Parker.)

facturing refrigerating apparatus and trying to do the wonders of Potter, and so that is included.

A. Well, I read the question rather carefully before I answered it, and I tried to keep all of these hypotheses [960] in mind, with some difficulty, and my answer was on the basis that all of these very favorable hypotheses, shall we say, were correct.

Q. If you knew or had reason to believe the hypothetical patents were invalid, would that fact influence your opinion as to what a reasonable royalty should be?

A. If the hypothetical patent is now hypothetically invalid, I would say that there should be no royalty paid at all. In other words, you do not pay royalties for an invalid patent.

Q. If no refrigerators were produced by or under the hypothetical patent, would that influence your opinion as to reasonable royalty?

A. No.

Q. If the hypothetical patent you are considering had no provable commercial success, would that affect your opinion as to reasonable royalty?

A. Assuming that all the other hypotheses were correct, I would say that it would not.

Q. I have one question down here. I think you have answered it already, but I will just put it to make sure that it is in.

Mr. Cuninghame: If the question has been answered, why put it in again?

Mr. Byron: I said I think it has been. I may be wrong. [961]

(Testimony of Norman S. Parker.)

The Court: Go ahead.

Q. (By Mr. Byron): If the hypothetical patent is invalid, should any royalty be paid thereon?

The Court: He has already answered that.

Q. (By Mr. Byron): Would a license taken under an invalid patent have any value?

A. I cannot see why.

Mr. Byron: That closes the cross-examination.

Redirect Examination

By Mr. Cheatham:

Q. Mr. Parker, if food were placed in Defendants' Exhibit 117, which is the secondary system and the liner attached as you see it there on the floor, could it be cooled by that piece of apparatus?

A. You mean by that piece of apparatus alone?

Q. That is right.

A. That includes those—carries the secondary system through to the secondary contact plate?

Q. And stop right there. A. No.

Q. If I understand you correctly, it is only when Defendants' Exhibit 117 is combined with Defendants' Exhibit 117-A in the manner taught by the—

Mr. Byron: Well, now, I don't like to be too serious [962] in making objections, but this is rather leading, I think, isn't it?

The Court: This is redirect.

Mr. Byron: Redirect, I know, but even so—

The Court: That is what I am talking about. He cannot do what you can do. You can ask leading

(Testimony of Norman S. Parker.)

questions, but this is his own witness, and he cannot ask leading questions.

Mr. Cheatham: I will change it, then.

Q. What would be the effect on your answer if Defendants' Exhibits 117 and 117-A were combined in the combination of Admiral refrigerator Exhibit 10-A?

A. Well, on the basis of the description of the Admiral machine, Admiral refrigerator——

Mr. Byron: Your Honor, again this is not proper redirect examination, as I understand it.

The Court: May I have the last question read.

(Last question read.)

The Court: I am going to give him wide latitude. Go ahead.

The Witness: On the basis of statements in the Morton patent about which I have testified and in the Admiral service manuals, the heat-conductive connection between the two transfer plates then makes, completes the machine, and it will function as a refrigerator when the primary system is [963] cycling.

Q. What is the effect on the primary thermostat which controls the on-and-off cycling of the system, of the primary system of heating the interior of the cooling compartment?

A. Well, I have never tried that. I would have to—all I can say is that the last Admiral service manual about which I testified on cross-examination indicates a heat leak or a heat path between the

(Testimony of Norman S. Parker.)

upper part of the secondary sleeve and the lower part of the primary sleeve so I would expect that heating the interior of the lower compartment would have an effect and would certainly have some effect on the operation of the heat-responsive member which controls the motor switch, motor [964] circuit.

Q. (By Mr. Cheatham): Did I understand you correctly to say that there is no difference in the insulation shown in the Potter-Bronaugh Reissue Patent 23,058 and the insulation shown in the Anderson Patent 1,439,051?

A. Well, if I did say that I was doing it by mistake, because I certainly had no such idea. The Bronaugh and Potter patent has differential insulation in the sense that the insulation is thicker around the freezing compartment, whereas in Anderson the thickness of the insulation throughout the walls of both compartments and between the two compartments is of uniform thickness so far as you can tell from looking at the drawing, and nothing is said about that matter in the patent itself.

Q. Did I understand you to testify that Admiral did not have a finned coil in the cooling compartment or its equivalent?

A. Why, they don't have a finned coil in the sense that Bronaugh and Potter have a finned coil. Of course, Mr. Morton describes this transfer plate as fins, so there is some latitude, possibly, in describing what a fin is. If you use the term as broadly

(Testimony of Norman S. Parker.)

as he did a fin might be any plain surface, or flat sheet or thin sheet.

Q. And are all of the elements of the Potter and Bronaugh Reissue Patent 23,058 old by themselves?

A. Yes; they are all old.

Q. Mr. Parker, have you noticed any corrections which you may wish to make in the testimony which you gave on direct [965] examination?

A. Yes. There are three or four or five pages there where some mistakes were made which seem not to indicate what I thought I said or intended to say.

Q. Can you point them out to me?

A. I can if I have a copy of the transcript.

The Court: Do you know what pages they are on?

The Witness: I marked the mistakes myself, your Honor, in pencil on the back of this after I read it. At page 755, line 7, the word "gap" should be "gas," and the word "evaporator"—two occurrences there—should be "vapor."

The Court: Is that the nature of all of your corrections?

The Witness: Something of that order, yes, your Honor.

The Court: Oh, well, you just tell that to Mr. Lucas a little later and show him where the corrections are. There is nothing of any fundamental character at all?

The Witness: No, nothing.

The Court: Mr. Parker has to take a plane

(Testimony of Norman S. Parker.)

pretty soon and we are trying to get him out of town. He is coming back, though.

Mr. Cheatham: No further questions, your Honor.

The Court: I had one question, Mr. Parker. In the hypothetical question that was propounded to you you stated that you assumed the truth of the rather favorable statement—I think those were your words—in the question, and that [966] you did not take into consideration your own information or knowledge of the elements set forth in the statement. Am I correct in that?

The Witness: Well, I would put it a little differently; that is, that I understood that this was a hypothetical question; that I was bound by the hypotheses, and that is all that I considered were the hypotheses of that question. Of course, there is much material in it which relates to matters which are entirely outside of anything that I have had occasion to determine. They got a long ways from the patent field.

The Court: I will tell you precisely what concerned me. Do you mean to imply that you considered the statements in the question literally and that even though you knew that some of the statements were incorrect you disregarded your own information and took the information set forth in the statement?

A. No, I don't—I am not conscious of having any information of my own which is contradictory to any of the statements.

(Testimony of Norman S. Parker.)

The Court: That's precisely what I had in mind, and I thought that maybe your statement was not clear in that regard. In other words, you are vouching for the truth of the statement so far as you know?

A. Yes, I have—there is nothing in the hypothetical question which I have any reason for questioning. What I had [967] in mind when I made that little remark which I probably should not have made is simply this: That the rate of royalties must inevitably, assuming that a reasonable royalty is arrived at—it must inevitably depend upon the place of the invention in the art, that and other factors, such as the previous condition of the prior art and so forth. But I have no information which in any way traverses any of those hypothetical statements.

Recross-Examination

By Mr. Byron:

Q. You do not know as a fact that all of those statements are accurate, do you?

A. I would have to go back and read that question through to answer that.

The Court: Well, I think that he has already indicated that he took the statement as true without regard to his own knowledge and that on many things he had no knowledge. Is that right?

The Witness: That would be correct, yes. No direct knowledge.

Mr. Byron: No further recross-examination.

Mr. Cuninghame: Well, if your Honor please, it seems a bit late to start another deposition.

The Court: We will quit. Mr. Parker, you are excused [968] and you can go home.

Mr. Cuninghame: If he comes back Monday morning, your Honor. We would like to have him then.

The Court: I am going to say that Mr. Byron—do you want Mr. Parker any more?

Mr. Byron: No, sir, I don't.

The Court: Well, then, as far as I am concerned he is excused. Do you want me to issue an order requiring him to come back?

Mr. Cuninghame: No, your Honor. I just want to impress upon him that I would like to have him come back.

The Court: There is no order against you, Mr. Parker, but I understand Mr. Cuninghame would like to have you come back Monday morning.

(Witness excused.)

The Court: Today is Tuesday and we are going to have one more day of trial before the recess. Is 9:30 a pretty good hour?

(The jurors nodded in the affirmative.)

The Court: If we start a little earlier we can go home a little earlier.

Now, I want to tell you once again that you haven't heard all the case yet. You haven't even heard all of plaintiff's case. Please keep an open mind. I think that probably [969] many of you are

in the same position as I am, but there is a lot of information and evidence that has come into the record, and at this time we don't know its place in the whole case. I remember many of the questions which Mr. Byron was asking Mr. Parker and that Mr. Cuninghame was asking of Mr. Cheatham. I couldn't see the relevancy of that, but that is what is going to be cleared up. The relevancy of this testimony both on direct and cross-examination will be made apparent to you if the lawyers do their job in the final argument. You won't know how this case should be decided until after you have heard that evidence discussed and until you hear what I have to say about the law. I am not telling you what I think about the law until that time. I say this all the time because I know that there is a tendency to make up your minds. That is a tendency that everybody has. I am subject to the same thing. So that is why I know. Please guard against it.

You are now excused until 9:30 tomorrow morning. We don't want anybody to go out of town and not come back. We need you.

(Whereupon the jury was excused.)

The Court: Mr. Cuninghame, do you think you will finish tomorrow?

Mr. Cuninghame: I certainly hope so, your Honor. I think we will. [970]

The Court: Have you any live witnesses?

Mr. Cuninghame: Well, I wonder how we can arrange it. You see, I do want, as I indicated this morning before this session, another witness. And

then I have, of course, the Morton deposition we have talked about. That is only an hour or roughly that or a little less, probably, and then I have some skipping to do through that large volume of various witnesses, but that shouldn't take too long.

Now, when that other witness becomes available to me and I should think we could work out some plan——

The Court: You mean on the offer of proof?

Mr. Cuningham: No, your Honor; on the matter I spoke to you about before this morning on the question of proportionate insulation. I asked to have the chief engineer of Admiral who is on the list tell us about that.

The Court: Is the chief engineer here?

Mr. Byron: Yes.

The Court: Mr. Bohman?

Mr. Cuningham: I understood he wasn't coming till Monday. I wish I had known that. I would have put him on the stand today. The information was he wouldn't be here till Monday. That's what I understood.

Mr. Kolisch: No, "he will be here Monday."

Mr. Cuningham: Oh. "He will be here Monday."

Mr. Byron: Sure. [971]

Mr. Cuningham: Can we start with him tomorrow morning?

The Court: Certainly. There is no reason why you shouldn't.

Mr. Cuningham: Well, then, I think, your Honor, we will take part of the day; I hope not the whole day. I want to make that statement subject

to my review of the exhibits and how much we have got left to clean up.

The Court: I thought that it might be desirable if you would submit your offer of proof sometime Friday when the jury isn't going to be around and you can get all that out of the way.

Mr. Cuningham: Your Honor, I think that is an excellent suggestion. It hadn't occurred to me and I would be glad to do it.

The Court: Is that all right with you to take it up Friday?

Mr. Byron: Yes, indeed.

The Court: Then we can save some time when the jury is not here.

Mr. Cuningham: I would be glad to, sir.

(Discussion off the record.)

The Court: Recess until tomorrow morning at 9:30.

(Whereupon, at 4:00 o'clock p.m., proceedings herein were adjourned until 9:30 o'clock a.m. Wednesday, November 23, 1955.) [972]

November 23, 1955, 9:45 A.M.

(Proceedings herein were resumed pursuant to adjournment, as follows:)

The Court: Parties ready in the Moist Cold case?

Mr. Cuningham: Yes, your Honor.

Mr. Ramsey: Yes, your Honor.

Mr. Cuningham: May I call Mr. Ray Bohman?

The Court: Yes.

RAYMOND H. BOHMAN

was produced as an adverse witness in behalf of the plaintiff and, being duly sworn, was examined and testified as follows:

Direct Examination

By Mr. Cuningham:

Q. Mr. Bohman, what is your name, residence, and present occupation?

A. Raymond H. Bohman, 227 West Losey Street, Galesburg, Illinois, and I am Chief Development Engineer, Admiral Major Appliance, the Midwest Manufacturing Division at Galesburg.

Q. Are you familiar with the Admiral product exemplified by Plaintiff's Exhibit 10-A?

A. I am.

Q. Mr. Bohman, does the insulation of the cooling compartment in that exhibit permit greater heat inflow than does the [973] insulation of the freezing compartment in that exhibit?

A. Would you qualify your statement?

Mr. Cuningham: No. I would like an answer to my question, your Honor. This is a hostile witness and I think I am entitled to a Yes or No answer.

The Court: Are you an officer of the Admiral Corporation?

The Witness: I am the Chief Development Engineer, sir.

(Testimony of Raymond H. Bohman.)

The Court: As a matter of law, he is not a hostile witness and until he shows some hostility the man——

Mr. Cuningham: I misspoke myself. I think adverse witness, your Honor, is better. He is here, as I understand it, for the purpose of testifying for the defendants.

The Court: Are you in a position to answer that Yes or No?

The Witness: I would like to have a little further explanation on the question. Does he mean——

The Court: Do you understand the question?

The Witness: Not entirely, sir.

Mr. Cuningham: May I repeat it, sir?

The Court: All right. Repeat it.

Q. (By Mr. Cuningham): Does the insulation of the cooling compartment in Plaintiff's Exhibit 10-A, the Admiral refrigerator here (indicating), permit greater heat inflow than does the insulation of the freezing compartment in that exhibit?

A. Do you mean per unit area or for the entire cabinet? [974]

Q. I mean as it stands on the floor. It's a very simple question.

A. The heat inflow?

Mr. Cuningham: May I have a Yes or No answer, your Honor?

The Court: Well, if the man can't give it—you refused to answer his other question, Mr. Cuningham. He asked you a question. He doesn't under-

(Testimony of Raymond H. Bohman.)

stand the nature of the question. Perhaps it's more complicated than you think.

Mr. Cuninghame: Very well, your Honor. I will take his answer.

The Witness: The heat inflow per unit area is the same in both compartments. The insulation material is the same and the thickness is substantially the same throughout the cabinet.

Q. (By Mr. Cuninghame): Now, did not you and I have a conversation a few minutes after the jury left this courtroom last night?

A. Yes, we did.

The Court: Mr. Cuninghame, I just want to say to you that under the rules here if you take the stand you can't argue the case and you should attempt to impeach no one unless you are willing to take the stand.

Mr. Cuninghame: My purpose, your Honor—I was not trying to impeach the witness; I am trying to clarify in my own mind—he made a statement to me that apparently, as far [975] as I can now tell, I would like to know if I misunderstood.

The Court: All right. Go ahead. I just want you to be acquainted with our rules, that's all.

Q. (By Mr. Cuninghame): Do you mean by that answer, Mr. Bohman, that the heat inflow into each of those compartments in this refrigerator here is precisely the same? A. Heat inflow?

Q. With the door closed.

A. Heat inflow depends upon a lot of factors, Mr. Cuninghame.

(Testimony of Raymond H. Bohman.)

Q. Well, I wish you would explain your answer.

A. Given like conditions, the same temperature difference across the insulation cavity per any given unit of area one square foot, we shall say, the heat flow into the food compartment would be substantially the same for that given one square foot of area as it would be into the freezer compartment. The insulation thickness is substantially the same and the material is the identical throughout the cabinet.

Q. Why do you qualify thickness by the word "substantially"? What is the difference?

A. There are a point or two upon the cabinet where there are some very small differences in dimension. If you like, I can point them out.

Q. I wish you would to the jury.

(Whereupon the witness leaves the stand for the purpose of demonstration.) [976]

A. When this cabinet is insulated either a Fiberglass batt such as you see here is used on the sides, across the top, on the other side, and across the back, and that batt is three inches thick. If the cabinet is insulated by blowing a loose insulation fill, a wooden form or wooden and metal form is placed into the cabinet and the insulation is blown in by air pressure. That form has substantially straight sides across and takes the shape—general shape of the liner which you see over here (indicating).

Mr. Byron: The exhibit number?

The Witness: Exhibit 117. Defendants' Exhibit

(Testimony of Raymond H. Bohman.)

117. The form also includes the space required for the freezer chest, the Defendants' Exhibit 117-A. So that substantially you get uniform thickness of insulation around the cabinet.

Now, there is a spot right here (indicating), we call it the cabinet offset, where the compressor sets in on this bottom rail. At that point the insulation is somewhat less than three inches in thickness, approximately $1\frac{7}{8}$ or two inches, if I recall correctly. But that is only in that particular spot. That was the reason I gave you the answer that I did.

Q. (By Mr. Cuningham): Have you included in your answer this additional material back here, and if not, will you please do so, this heavy insulation here (indicating)? Where does that go? [977]

A. That fits——

Q. Is that correct?

A. That is correct. And this fits over the back as is shown here (placing insulation inside refrigerator).

Q. Is that further reason why you qualified by using the word "substantially"? A. Yes.

Mr. Cuningham: Your witness.

Mr. Ramsey: No questions.

Mr. Byron: No cross-examination.

(Witness excused.)

Mr. Cuningham: Now, if your Honor please, I would like to read the Morton deposition, and I think before doing so I should—I want to point out, does your Honor have a copy of this? I have only

one. I would like to point out that there is a motion to strike that Mr. Byron told me about, beginning on page 310 at the bottom, a question there.

The Court: 310?

Mr. Cuninghame: Yes. At the bottom, the last question.

The Court: There is no 310 on this one.

Mr. Cuninghame: 310, sir.

Mr. Kolisch: I am sorry.

Mr. Cuninghame: The Morton deposition.

Here we have a photostat here.

The Court: That's all right. One is coming up right now. [978]

(Whereupon the crier hands a copy of the Morton deposition to the Court.)

Mr. Cuninghame: Now, may I say just this——

The Court: The last question on there?

Mr. Cuninghame: No, sir. It starts with the last question on 310 and runs through to the—about the middle or below the middle of 314.

Now, perhaps your Honor would like to read those pages. We do not, of course, want the colloquy, but we do want in the testimony the answers of the witness, and we want, particularly, your Honor, the end of it, beginning about the middle—well, it's the last question on 313 and the testimony at the top of page 314. That is a little different subject, I think, and it is capable of that division. There is no other motion to strike and we have been over this and we will go right through it.

The Court: The motion to strike is allowed.

Mr. Cuninghame: In toto, sir, to 313?

The Court: Yes. [979]

Mr. Cuninghame: Now, I state for the record that this deposition was taken on April 28, 1955, at the offices of the Admiral Corporation in Chicago.

Mr. Byron: That is not correct. I am not criticizing it, but it is not correct.

Mr. Cuninghame: You are right. I think it was June 1st, as I read the notices.

Mr. Byron: That is right.

Mr. Cuninghame: I was wrong, June 1st, 1955, and, as appears on Page 294, it was taken for the purpose of discovery, the last word in the paragraph, 294.

The Court: Are you going to read the entire deposition?

Mr. Cuninghame: Except the part that has been stricken, and that, of course, we take care of Friday.

The Court: Go ahead.

(Thereupon the deposition of Evans T. Morton was read into the record as follows, with Mr. Cuninghame reading the questions; Mr. Hart, the Court Crier, reading the answers; and Mr. Lucas reading the defendants.)

DEPOSITION OF EVANS T. MORTON

“Q. What is your name, residence and occupation?

A. Evans T. Morton, Gilbert Park, Knoxville, Illinois.

(Deposition of Evans T. Morton.)

Q. And your occupation?

A. Director of engineering for Admiral Corporation, Vice-President [980] of the Midwest Division.

Q. And how long has that been you have held that title?"

Mr. Cuningham: Well, this colloquy, I think we should read, your Honor. It has a bearing on the purpose of the deposition.

The Court: Very well.

"By Mr. Byron: Have you indicated how this witness is called?

By Mr. Cuningham: No.

By Mr. Byron: It may be well to do that.

By Mr. Cuningham: All right. I will state on the record that we meet here pursuant to an agreement made since the last deposition on April 28, 1955. The notice of the intention to examine Mr. Morton and Mr. Douglass was given on the record at that time but the date was fixed later by agreement.

By Mr. Byron: Do you want to bring out the fact it is a discovery deposition?

By Mr. Cuningham: You make any statement you want on the record.

By Mr. Byron: No.

By Mr. Cuningham: It is understood that this is a pre-trial discovery deposition of the defendant intervener, [981] Admiral Corporation.

(Deposition of Evans T. Morton.)

By Mr. Byron: Yes, taken by the plaintiff.

By Mr. Cuningham: Correct.

Q. (By Mr. Cuningham): Mr. Morton, how long have you been director of engineering for Admiral Corporation?

A. That particular title was given to me sometime early in 1950.

Q. And how long have you been vice-president of Midwest Division?

A. Approximately two years.

Q. I think it will save us a little time if you would just give me a brief statement of your history with the Admiral Corporation and when you came with them.

A. I started with Admiral Corporation February, 1944, and I think the official title at that time was design engineer. In any case I have been in charge of all the design and development engineering of the appliances, that is, of the refrigeration line, since that date, and since 1950 of all the appliances.

Q. And what was your occupation prior to your association with Admiral?

A. Just prior I was chief engineer of the Indianapolis plant of the—pardon me, chief inspector of the Stewart-Warner plant at Indianapolis. [982]

Q. For how long had you been chief inspector?

A. Just a little over a year in that position.

Q. That is, from roughly the end of 1942?

A. Yes, about the first of '43 to February, '44.

(Deposition of Evans T. Morton.)

Q. And prior to the first part of 1943 what was your occupation?

A. A very short period during the war as project engineer, and previous to that in charge of Stewart-Warner's development laboratory.

Q. For how long?

A. Since August of 1936.

Q. So you were in charge of the Stewart-Warner developmental laboratory?

A. That's right.

Q. Since August of 1936? A. Right.

Q. Up to sometime in 1943?

A. Approximately the spring of 1942 when the war was under way.

Q. What was your principal concern in the development laboratory of Stewart-Warner, refrigerators?

A. Refrigerators, yes.

Q. Did you have anything to do with the other Stewart-Warner products, you personally?

A. A limited amount. [983]

Q. Had you had any previous experience prior to August, 1936, in refrigeration?

A. Approximately two years with Norge.

Q. That is, Norge is a division now of Borg-Warner or Stewart-Warner? I forget.

A. Borg-Warner. It was at that time also.

Q. What were your duties with the Norge Division of Borg-Warner?

A. Laboratory engineer.

Q. Concerned primarily with refrigeration?

(Deposition of Evans T. Morton.)

A. Entirely.

Q. That is household refrigeration?

A. Right.

Q. Well, we have gone back pretty far, Mr. Morton. What did you do prior to that?

A. Prior to that year you would go into college, and I graduated from the University of Michigan.

Q. Formal education in engineering?

A. Yes.

Q. Well, you seem to have spent over twenty years actively in household refrigeration business, is that correct?

A. That's right.

Q. Admiral took over Stewart-Warner's household appliance business, didn't it, in 1944, or thereabouts?

A. Yes, sir. [984]

Q. And it was at that time that you came to work for Admiral, is that correct?

A. Yes; I was not part of the deal. It was a happenstance that I ended up with Admiral.

Q. What do you mean?

A. I resigned from Stewart-Warner before Admiral, to my knowledge at least, signed any agreement with Stewart-Warner.

Q. And then after the agreement was signed you went to work for them?

A. It looked like a good spot.

Q. Did others also come from the refrigeration appliance business of Stewart-Warner to the Admiral Corporation at about that same time?

(Deposition of Evans T. Morton.)

A. Not at that time. Some of the boys who had worked with me I later hired.

Q. You were the first to come over there?

A. That's right.

Q. I have a list of names, and perhaps you can give me a little thumbnail sketch of each of them. There is a Mr. George Heindenblut.

A. Mr. Heindenblut has been, I would say, my assistant with various titles since 1936 except for a period at Stewart-Warner during the war years and a short period after I left Stewart-Warner.

Q. He was employed by Stewart-Warner as your assistant [985] particularly or at least practically throughout your period at Stewart-Warner?

A. Yes.

Q. Is he still employed by Admiral?

A. He is still employed by Admiral, and as chief engineer of refrigeration.

Q. And he reports to you? A. Yes.

Q. Mr. Floyd Eck?

A. Mr. Eck worked for me at two or three different times or occasions at Stewart-Warner.

In other words, due to transfer it was not a continuous employment. I hired him later at Admiral, and he left us about 1949 to go to Deep Freeze, and later to Reynolds Aluminum Company.

Q. Metals? A. Yes, where he is now.

Q. Mr. Lou Carlson?

A. Mr. Carlson worked extra at Stewart-Warner, not for me but in another capacity in engineering for from about 1937 to about 1940, and worked

(Deposition of Evans T. Morton.)

for Admiral for a period from 1944 to about 1948 or '49. I am not sure of the date.

Q. And then he left Admiral but to go with someone else?

A. Yes. Now he is with Tecumseh Products.

Q. Where is that? [986]

A. That is at Tecumseh, Michigan.

Q. Mr. Walter Weinrich?

A. Mr. Weinrich worked with me at Stewart-Warner. He was there before I was. I hired him from Stewart-Warner about 1949 as resident engineer at Michigan and later transferred him to Galesburg, where he now is.

Q. Was he active in the household refrigeration field? A. Yes.

Q. And still is? A. Yes.

Q. Is that his primary concern, or do you have any reservation about that answer?

A. Mr. Weinrich is sort of a project man. He is not a graduate engineer nor has he ever functioned, I believe, strictly as such. He is primarily from a background of machining and shop work, and he has worked on projects of that nature.

Q. I notice his name appears as a patentee in one of the fairly early patents, 2,024,493, issued December 17, 1935, and assigned to Stewart-Warner, I believe, and subsequently to Admiral.

That is a patent entitled 'Refrigerator Evaporator Door.' Was he active in developmental and research work?

A. I wouldn't call it developmental work in the

(Deposition of Evans T. Morton.)

normal understanding. It is what we call gadgeteering rather than [987] engineering.

Q. And Mr. Burrise?

A. Mr. Burrise worked for Stewart-Warner Warner quite awhile before I started and up to about '47, I would think. Then he came to work for me and was under my department until approximately a year and a half ago when he was made director of quality control, I think is his proper title, at the Midwest plant for Admiral.

Q. That includes refrigerators?

A. And ranges.

Q. Mr. Schinke?

A. Mr. Schinke was assistant service manager, and he may have been service manager at the end for Stewart-Warner, and he came to work for Admiral probably late in 1944 or '45, and he is now national service manager for Admiral or director of sales, I don't know just which.

Q. Where is he located?

A. He is located in Chicago here, I think on East Water Street. I didn't pay much attention to that.

Q. In the service department? A. Yes.

Q. Can you think of any others that have come over from the Stewart-Warner refrigeration department to the Admiral Corporation?

A. No, I can't.

Q. What became of Mr. Iwashita? [988]

A. Mr. Iwashita is now with General Electric

(Deposition of Evans T. Morton.)

Company, and I believe his title is manager of the air conditioning division.

Q. What was his position with Stewart-Warner? A. He was assistant chief engineer.

Q. That is, he was the assistant to you, is that it? A. No.

Q. You were chief inspector?

A. No. I was chief inspector at the end, and I was in charge of laboratory engineering. During the refrigeration period I was in charge of the laboratory.

Q. Was Mr. Iwashita in the laboratory of Stewart-Warner?

A. He was assistant chief engineer of the engineering department, covering all engineering.

Q. That is not just refrigeration?

A. That is not just refrigeration. In other words, the laboratory is only just part of our function. There is project engineering and things like that.

Q. I see. Who was chief engineer of Stewart-Warner?

A. Two of them during the period I was there. There was Charles R. D'Olive and Russell Ayres.

Q. Where are those two people now, if you know?

A. Mr. D'Olive is on an engineering setup very similar to a manufacturer's representative setup.

Q. Is that here in Chicago?

A. I believe his headquarters are at Wilmette or one of [989] the north suburbs, I am not sure.

(Deposition of Evans T. Morton.)

Mr. Ayres is chief engineer of the St. Paul plant of Seeger-Sunbeam Corporation.

Q. Mr. Morton, what was the first household refrigerator embodying what I shall dub the moist cold feature. You understand what I mean by that, do you? A. Yes.

Q. What was the first household refrigeration that you know of?

A. A model refrigerator built at Norge in about 1934.

Q. Was that a commercial project at all?

A. A version of that refrigerator was produced by Norge in either 1935 or 1936.

Q. Did that involve two temperatures and two compartments, one compartment being dry cold and the other moist cold?

A. I think it could be interpreted that way. It was an evaporator with a high temperature sleeve with low temperature shelving within the evaporator, built with one food liner.

Q. That is, the low temperature sleeve was designed for the storage of frozen foods in quantities, or was it not?

A. Probably one and one-half cubic foot size.

Q. Did it maintain a humid atmosphere in the main compartment?

A. I don't remember the figures, but it was a higher temperature than the so-called conventional refrigerators of that day. [990]

Q. That was the first one in your experience that made any effort at humidity control in the general

(Deposition of Evans T. Morton.)

food compartment, is that right? A. Yes.

Q. Did you ever hear of the Potter refrigerator? A. Yes.

Q. In what connection did you hear of that refrigerator?

A. As I became interested in refrigeration because of my job at Norge I would say I was familiar with most of the refrigerators that were on the market.

Q. And that included the Potter refrigerator of Buffalo, or did it?

A. I knew there was such a company. I cannot recall now whether I actually saw the Potter refrigerator at that date. The first refrigerator I remember with the so-called Potter principal was the Apex, I believe.

Q. I will show you a 20-page ad plus the title page of the merchandise section of Electrical Refrigerating News, February 24, 1932. That has previously been marked Plaintiff's Exhibit 3-U. I will ask you to glance through those pages, if you will, and let me know if you are familiar with that refrigerator. There are two types. There is a conventional and a moist cold type. It refers to the moist cold type. My question is directed to the moist cold type.

A. I cannot say I ever saw the picture, but I recall a [991] refrigerator of that general nature.

Q. Is it your impression that preceded this Norge development?

A. Not in my knowledge. By that I mean I knew

(Deposition of Evans T. Morton.)

of the Norge, because of circumstances possibly, but I knew of the Norge before I knew of the Apex or the Potter.

Q. Well, when and what was the occasion when you knew of the Potter or Apex refrigerator first?

A. I can't tie that to any definite time.

Q. Was it while you were at Stewart-Warner or was it while you were at Norge?

A. I believe after I was with Stewart-Warner.

Q. Did you have any part in making any tests on this so-called Potter refrigerator at Stewart-Warner?

A. I have no memory of ever running a test on the Potter refrigerator.

Q. Did you ever see one of these moist cold refrigerators of the Potter Company at Stewart-Warner's laboratory on test?

A. I don't believe I did.

Q. You don't now recall?

A. Definitely not.

Q. Who would be in charge of such testing, say in about 1935 or 1936 at Stewart-Warner?

A. Previous to the time I came to Stewart-Warner there was a gentleman by the name of Chamberlain. I don't remember his [992] first name nor do I know much about him, because he had left I could guess about four to five months before I arrived, and during that four to five months the laboratory was not in use."

Mr. Cuningham: Skipping now to the last question on Page 314:

(Deposition of Evans T. Morton.)

“Q. Now, as you have already told us, you decided the Admiral proposed business in household refrigeration was attractive; then did you have in mind a continuance of this particular structure shown in Defendants’ Exhibit 111? A. No.

Q. Was it a modification of that particular structure or perhaps you can tell me from memory what it was?

Tell us in your own words, Mr. Morton, what the structure was that was contemplated at that time by Admiral in 1944?

A. Admiral gave me no specific instructions at that time except they wanted to continue the two-temperature, and the problems that arose from the Stewart-Warner system at that time were inability to service as an hermetic system and the period that Admiral was to provide that type of service system, which led us into a completely different path.

Q. Did you undertake responsibility for such a development, Mr. Morton? [993] A. I did.

Q. I think it will be easier and quicker perhaps if I can show you, Mr. Morton, the Admiral interrogatory Exhibits C through F which I am sure you are quite familiar with. They have been furnished us in this case.

Perhaps to be chronological about it I will select Exhibit C, which I might say according to my understanding is the first two-temperature Admiral construction that came on the market in, I believe, 1947 or 1948.

Could you compare that generally or point out

(Deposition of Evans T. Morton.)

changes in that refrigeration circuit over that of Defendants' Exhibit 111?

A. You are speaking now of refrigeration circuit?"

Mr. Cuningham: Your Honor, it seems to me that perhaps I should use our exhibit numbers here.

The Court: Yes, I do not know what 111 is.

Mr. Cuningham: Your Honor, I can show you it in Plaintiff's Exhibit 6-B.

The Court: Where is that exhibit?

Mr. Cuningham: I beg your pardon?

The Court: Don't you have an exhibit here?

Mr. Cuningham: Yes, it is a part of this record here, and I would like to show it, if I may, to your Honor. It is that one-page diagram. I did not mark it separately. (Presenting [994] document to the Court).

The Court: All right; tear it out of the book and mark it separately.

Mr. Cuningham: Well, your Honor, may I preserve this book and present another copy? I have another copy.

The Court: You have another copy?

Mr. Cuningham: I am afraid not here, but we do have it.

The Court: 111 is just a diagram anyway?

Mr. Cuningham: Yes, sir. The other exhibits that I should identify——

(Discussion off the record.)

(Deposition of Evans T. Morton.)

Mr. Cheatham: Your Honor, the Admiral Interrogatory Exhibits A through N, inclusive, have been identified, and are in before the Court, as Exhibits 4-CC-1 to 4-CC-14, inclusive. They have been marked, and they have been presented.

The Court: Have you told the clerk which ones you want?

Mr. Cheatham: And also which have not been presented yet, the Morton exhibits are 3-GG to 3-HH, which are exhibits which have been——

The Court: Are you going to read from the interrogatories?

(Discussion off the record.)

Mr. Cuninghame: He is ahead of me, your Honor. These are simply the interrogatories, the interrogatory exhibits. [995] I identified them as A to F.

Mr. Cheatham: The one which Mr. Morton is deposing about, in comparison with Defendants' Exhibit 111 of the Stewart-Warner record, is Plaintiff's Exhibit 4-CC-3 in this case, Admiral Interrogatory Exhibit C.

The Court: All right.

“Q. (Continued): Could you compare that generally or point out changes in that refrigeration circuit over that of Defendants' Exhibit 111?

A. You are speaking now of refrigeration circuit?

Q. Yes.

(Deposition of Evans T. Morton.)

A. The refrigeration circuit in the Stewart-Warner was through cold plate with a differential pressure control which was eliminated from the Admiral. In the Admiral we cool the food compartment with a secondary system. The system was hermetic in the sections of the refrigerator where the Stewart-Warner was a valve, and a flare nut connection.

I think in general that would cover it.

Q. And you made use of a so-called primary and secondary transfer plate in the Stewart-Warner system, did you not? A. That is right."

(Discussion off the record.)

Mr. Cuningham: Mr. Lucas is absolutely right. There [996] is a mistake that I did not catch. It should be "Admiral" instead of "Stewart-Warner."

Mr. Byron: Would you read the whole question, please?

Mr. Cuningham: Yes.

"Q. And you made use of a so-called primary and secondary transfer plate in the Admiral system, did you not? A. That is right.

Q. That is not true of the Stewart-Warner box, is it? A. It is not.

Q. Now, are those the principal differences in this construction shown in the interrogatory, Exhibit 4-CC-3, over that of Defendants' Exhibit 111?

A. I believe that would have been considered the basic differences in the systems.

(Deposition of Evans T. Morton.)

Q. Now I will show you Admiral's Interrogatory Exhibit 4-CC-2 and ask you if the same is not generally true of that? A. It is.

Q. What if any major differences are there between Exhibits 4-CC-2 and the one you looked at before, Exhibit 4-CC-3?

A. Merely a modification and the design of elements; no basic differences.

Q. No basic change in the system? A. No.

Q. Is that also true of Interrogatory Exhibit 4-CC-4 and [997] 4-CC-5 and 4-CC-6, which I show you now? A. Yes.

Q. And do those exhibits illustrate the refrigeration system used in the following model numbers? Can you identify these from the model numbers? A. I can.

Q. I will read from a list furnished in the Admiral Interrogatory Exhibit 4-CC-1. Model No. 958.

A. Let me check those very early ones.

Q. That is the first one, I believe.

A. Yes.

Q. No, I have an earlier one. Model No. 759.

A. That is not an earlier one, I don't believe. I think it is a later one, modelwise. That is right, though.

Q. But it is the same refrigeration system?

A. Yes.

Q. 959? A. Yes.

Q. 1090? A. Yes.

Q. 1390? A. Yes.

Q. 1191? A. Yes.

(Deposition of Evans T. Morton.)

Q. 1192? [998] A. Yes.

Q. 1192W? A. Yes.

Q. 1292? A. Yes.

Q. 11C15? A. Yes.

Q. 12C15? A. Yes.

Q. 12C15A? A. Yes.

Q. Now, are there any other model numbers embodying that same refrigeration system, that you recall? A. Covering any particular period?

Q. Yes, from December 15, 1948, through October 6, 1953. A. I know of no others.

Q. What was the upside down combination of the two-door?

A. That was a refrigerator that was made in 1954.

Q. Did that embody the same circuit?

A. There is a different circuit in that one.

Q. That, however, had a humid cold?

A. Yes.

Q. In the general food locker, is that correct?

A. Yes. The general food compartment, freezing locker and general food compartment, yes. [999]

Q. The reason you call it that is that you had a freezing compartment below and a general food compartment, is that correct?

A. That was an advertising decision.

Q. Can you tell me in a shorter way what differences there were in that circuit?

A. It is not going to be very short.

Q. All right. A. It was a combination——

(Deposition of Evans T. Morton.)

Q. Did that embody primary and secondary sets of expanders?

A. That did not. Pardon me, I will have to retract that. There are two expanders with again a pressure difference between the expanders and with the bypass on one of the expanders. It was quite a complicated system compared to other systems we have made.

Q. Did that make use of your so-called restrictor?

A. Well, no, not in the sense that the Cold-Temp did. It did make use of the shutoff valve; similar in experience but different in action."

Mr. Cuninghame: I suppose there should be a correction there. It is Dual-Temp; not Cold-Temp, isn't it?

Mr. Byron: I don't know. Leave it the way it is, what the witness said. [1000]

"Q. Those expanders were in series?

A. They were so arranged they were being put either in series or parallel.

Mr. Byron: Are you referring now to 1954?

Mr. Cuninghame: Yes.

Q. These are all differences in the pre-1954 models?

A. They are different from the 1954 models. [1001]

Q. That is what I mean. I would like to ask one other question.

I direct your attention to Siragusa Exhibit 7

(Deposition of Evans T. Morton.)

which I will identify in this case as Plaintiff's Exhibit 3-FF.

Mr. Byron: Your Honor, I don't care if this goes in or not, but the fact is——

Mr. Cuningham: Your Honor, I don't either. I think I will skip it.

Mr. Byron: It has no bearing at all. It's about an experimental refrigerator that is now being worked on. The patent expired.

Mr. Cuningham: I guess we go to 324.

“Q. Mr. Morton, are you familiar with the patents owned by the Admiral Corporation on household refrigerators generally?

A. In general, yes.

Q. I hand you now what I believe to be a substantially complete volume of those patents, with an index. Could you help us out by indicating any particular patent that discloses a refrigerator or refrigerator circuits of the Stewart-Warner devices you have testified about?”

Mr. Cuningham: I should change that to Admiral. I corrected it later on.

“Q. I mean, using the same question, Admiral devices you have testified about. [1002]

A. To my knowledge there were no patents taken by Stewart-Warner on the refrigerator circuit of the nature of the one that was used.

By Stewart-Warner on the system that was used.

Q. Now, was there any attempt made to get a patent on that system, by Stewart-Warner?

(Deposition of Evans T. Morton.)

A. I do not believe there was an attempt made to obtain a patent. I am not qualified to answer that for certain, because I was not at that time in a position where that was my responsibility.

Q. Now I will ask you the same thing with respect to the Admiral Corporation structures and the Admiral Corporation patents.

I will ask Mr. Morton to identify, if he can from that volume of Admiral patents, any that will help us understand the refrigerator circuits which he has just testified about in the commercial Admiral boxes, and identify the patents with the particular circuit. This is an effort to shorten the testimony and get the information about the patents. Of course I mean the disclosure and not the claims necessarily, but just so we can understand the circuits.

A. There are two patents, and I will have to identify them for my own purposes. There is one covering the system and one covering a cabinet.

Q. The drawing would help you with the disclosure? [1003]

A. Right here (indicating). This is the system patent, the basic system patent we have got.

Q. Now will you read the numbers for the record?

A. It shows a cabinet and so forth. That is the system patent that was taken out by Admiral.

Q. Would you read the number so we will have that in the record? A. 2,586,853.

(Deposition of Evans T. Morton.)

Do you want the other patents that might apply to that system?

Q. Yes, that were disclosed.

A. 2,601,549, covering a restrictor or valve.

Q. This is as to the models you have testified to prior to the upside down model, is that correct?

A. That is right, the models prior to the upside-down model built by Admiral.

Q. Mr. Morton, those are the models I read from the interrogatory list.

A. That question was specifically directed to the refrigeration circuits?

Q. Yes. A. I believe that covers it.

Q. What have been your duties in connection with these refrigeration patents since you came with Admiral, Mr. Morton, in general? Are you actively helping Mr. Douglass in connection [1004] with these patents and the pending applications?

A. Basically to point out to Mr. Douglass developments, leaving to his judgment beyond that, and to assist him where he needs assistance which we can offer.

Q. Have you acquired certain familiarity with the patent article?

A. Some familiarity and a lot of confusion.

Q. Does that answer include the Potter patent in suit?

A. I have looked at the Potter patent, yes.

Q. I will show you a copy of the Potter patent in suit, reissue 23,058, and state the drawing and

(Deposition of Evans T. Morton.)

specification were identical with the original. Are you familiar with that?

A. I have seen it and have read it. When you say 'familiar' not in detail, no.

Q. What was your purpose in reading it? As you now recall it, of course.

A. When this last suit was brought is the first time I ever saw or read the reissue patent.

Q. Would the same be true of the original? I have a copy of that.

A. The original I was interested in and read and saw either before I left Stewart-Warner—before that, because it was a normal interest, I think, in the suit Potter had with Stewart-Warner.

Q. Just to be sure, I will show you a copy of the original [1005] patent. I think there are no changes except in the claims.

What did you do in connection with that suit against Stewart-Warner?

A. Practically nothing except read about it. I did do some—I did not directly myself do anything, but one of the men that worked for me did some work on his own for compensation for the law firm of which Mr. Hinkle was a member.

Q. And which represented Stewart-Warner in that suit? A. That's right.

Q. Did you have occasion yourself to consider this original Potter patent in the light of the prior art cited in that suit?

The Witness: Will you say that again?

(Deposition of Evans T. Morton.)

(Whereupon, the question was read as above recorded.)

A. Only in the way that we consider all the patent art at the time we developed the first Admiral.

Q. (By Mr. Cuninghame): No. Not while you were with Stewart-Warner? A. No.

Q. Did you consider the Anderson patent number 1,039,051, copy of which I show you?

A. That patent also I became familiar with because of my own personal interest in the Stewart-Warner suit.

Q. Did you consider that as the closest prior art?

A. I don't think I can answer that question. [1006] I don't think I can honestly answer that question. I felt that neither one was close to what we were doing.

Q. At Admiral? A. At Admiral, yes.

Q. You did not yourself—and I am trying to get this testimony clear if I can—compare the Anderson patent with the Potter patent? A. No.

Q. Are you prepared to testify as to any differences between those two structures, the Anderson and the Potter?

A. With sufficient time for study I believe I could.

Q. Well, maybe it won't require study.

Mr. Cuninghame: The answer is what?

A. The answer would be no.

Q. As I understand you, you have considered both the Anderson and the Potter patent in the

(Deposition of Evans T. Morton.)

light of the structures you contemplated at Admiral? A. Only in a very general way.

Q. Now, the Anderson patent expired in 1939? It expired in 1939, that's right, December 19, 1939. Prior to your association with Admiral, wasn't it? A. Five years prior.

Q. However, this Potter patent had not expired when you first undertook this development work at Admiral, had it?

A. The answer is it had not." [1007]

Mr. Cunningham: I will state for the record the patent referred to was the original of the patent in suit No. 2,056,165.

"Q. Did you therefore consider the original claims and their bearing upon that work at Admiral?

A. I think I should answer that question that I depended on patent counsel that we had to review our development and pretty much ignored patents in the development.

Q. You do know that this Potter patent was discussed, however, and considered by them, do you not? A. I would say yes.

Q. Did you obtain any advice from these patent lawyers with respect to the infringement of the claims of that original patent? By you I mean the Admiral Corporation.

A. I can answer that myself in that I worked directly with Glen Muffly and depended on his advice.

(Deposition of Evans T. Morton.)

Q. Mr. Muffly is not an attorney, is he?

A. He is not.

Q. What was his advice with respect to the claims of this original Potter patent?

A. Mr. Muffly in conversations I had with him felt that we were not infringing on the Potter patent. I don't recall that he specifically mentioned that one, but I do know that after review they were not in the patents that he advised we might be infringing.

Q. Did he furnish you any advice in writing as to those [1008] patents?

A. I have none that I know of. Mr. Muffly and I worked almost entirely with conferences.

Q. During what period was that?

A. I worked closely with him in 1944 and '45 and used his services less and less since that period, and very seldom any more.

Q. Were any records kept of these conferences by you? A. No.

Q. Do you recall any other correspondence or other writings regarding this advice?

A. Everything I could—I have turned over to Mr. Byron. It is very little.

Q. Is Mr. Muffly still with Admiral Corporation?

A. No, on a retainer basis for a number of years, and on occasion will make a search through his rather extensive files covering anything he may be asked about.

(Deposition of Evans T. Morton.)

Q. Now, Mr. Morton, what if any work have you done in connection with the instant suit on the Potter reissue patent?

A. With the present suit?

Q. The one in which we are now acting.

A. Nothing except spend a little time discussing it with Mr. Byron and Mr. Ramsey.

Q. When were those discussions held, approximately? [1009]

A. Approximately ten days ago, I think.

Q. Have you done any work with Mr. Muffly on this? A. No.

Q. Have you considered the claims of the reissue patent at all? A. No.

Q. You have read the claims, haven't you?

A. I have read the claims.

Q. Mr. Morton, I would like to ask you a series of questions that have been asked in this case in former interrogatories to the original defendants. They were allowed as such interrogatories and answered in a fashion by the original defendants, and I believe that without exception the answers were 'Do not know,' 'Not qualified to answer, too technical.' "

Mr. Byron: Your Honor, I think by explanation we should say that those interrogatories were directed to the president——

The Court: Yes.

Mr. Byron: What is that? The President of the Meier & Frank Company, and I believe the Presi-

(Deposition of Evans T. Morton.)

dent of the Lou Johnson Company. Of course, Admiral knew nothing about the structures.

Mr. Cuningham: That is correct.

The Court: At the time that neither Admiral nor Amana were parties to this litigation?

Mr. Byron: That's correct, your Honor. [1010]

"Mr. Cuningham: Q. Mr. Morton, I hand you this copy of the answers to the interrogatories.

I hand you now, Mr. Witness, my copy of the answers of Meier & Frank, the numbers opposite the answers corresponding to the questions I now ask you, and you will thus have before you the answers that have already been made. I believe my characterization of them is almost 100 per cent correct. There are so many I can't be sure. I have not checked them all, but will you check them and will you please try to give me the information called for in the questions? There is no information given in the answers there.

I will begin with Interrogatory No. 31 which is—no, I will skip that one. That one was answered. I will begin with Interrogatory No. 34:

'In the normal operation of the Admiral refrigerator, Model 1090, does the air in the cooling compartment have a substantially stable temperature of about 40 degrees Fahrenheit?'

A. Under use conditions, do you mean?

Q. In normal operation.

A. I would say no refrigerator has, including that one, because there is a major change in the

(Deposition of Evans T. Morton.)

temperature with any addition of loads and doors opening.

Q. With those exceptions is the temperature at 40 degrees Fahrenheit substantially stable? [1011]

A. If you will ask me if it is substantially stable under standard operating conditions with the door closed and no additional heat or food added then I would say it is substantially stable at a temperature below 40 degrees.

Q. How much below?

A. Two to four degrees, depending upon the manufacturing variances.

Q. Now question 36:

'In the normal operation of the Admiral refrigerator, Model 1090, does the air in the cooling compartment have a humidity whose relative value is 100 per cent at 32 degrees Fahrenheit?'

A. Yes.

Q. Question 38:

'In the normal operation of the Admiral refrigerator, Model 1090, does the air in the freezing compartment have a temperature well below 32 degrees Fahrenheit?'

A. Yes.

Q. Question 40:

'In the Admiral refrigerator, Model 1090, does the cooling compartment have a refrigerant expander associated therewith which has heat-conducting surfaces so constructed and arranged [1012] as to be maintained during normal operation at a temperature above 32 degrees Fahrenheit while withdrawing heat from the cooling compartment

(Deposition of Evans T. Morton.)

to maintain the air in the cooling compartment at a substantially stable temperature of approximately 40 degrees Fahrenheit?’

The Witness: There is no direct answer to that question.

Q. Do you have any difficulty understanding that question?

A. There is no direct answer to a question taking in as many variable components and so forth, as you brought out there.

Q. Well, in that refrigerator does the cooling compartment have a refrigerant expander which has heat-conducting surfaces so constructed and arranged——

Mr. Byron: Put in the word ‘within.’ You had that in the question.

Q. (By Mr. Cuningham): I wonder if it would help you any if you took these in by eye rather than by ear. I will hand you a file copy of the same question. Well, I think I will show you my own copy.

Mr. Byron: Why don’t you take the claim?

Mr. Cuningham: That is question 40.

Mr. Byron: This question is not in line accurately with the claims in issue.

The Witness: There are so many ifs connected with that [1013] question it is hard to give you an answer.

Mr. Cuningham: I am not insisting on a yes or no answer. Give me whatever answer you want.

A. I believe I would have to answer that the

(Deposition of Evans T. Morton.)

refrigerant expander indirectly retains the temperature; it does not directly withdraw the heat from the compartment.

Q. I am afraid I don't understand what you mean by the word 'indirectly.' Do you mean through some other media?

A. Through the walls of the liner. The expander in the sense you are using it here, I believe, is the tube through which the refrigerant is circulating?

Q. That is correct.

A. The expander is not in contact with the compartment itself; it is in contact on the outside walls with it.

Q. Is there any thermal conducting contact with the outside walls? A. Yes.

Q. Or is it the inside walls?

A. It is the thermal contact with the outside walls.

Q. The outside walls of the food compartment?

A. Yes.

Q. Do those function as fins for the tubes?

A. Not in the normal sense we use the word 'fins,' no.

Q. Would you explain that?

A. A fin in the term as I understand it is soldered, pressed [1014] or bonded closely, mechanically bonded or bonded by means of welding or brazing to the surrounding cool—

Q. Wait. Are these tubes attached or affixed in any way to the liner?

(Deposition of Evans T. Morton.)

A. They are attached by virtue of springs which retain.

Q. Does that make an effective thermo connection?"

Mr. Byron: I think it may be of value for the Court and jury to appreciate what that means. I can point it out if you so desire, what these things are. Now, calling attention to Defendants' Exhibit 117, the question is whether or not these coils were secured to the outside of the liner, and the witness is explaining that there are springs which pull——

The Court: Mr. Byron, this is Mr. Cuninghams deposition.

Mr. Cuninghams: I was afraid it would be long, that's all, your Honor.

The Court: And he will permit you to do it with another witness. You have Mr. Glen Muffy in the courtroom?

Mr. Byron: I just thought it would be informative, that's all.

The Court: I am going to let Mr. Cuninghams try his case the way he wants to, so long as he doesn't violate any rules. [1015]

Mr. Byron: Well, probably I should not have said what I did.

The Court: Where do we start?

Mr. Cuninghams: "Q. Does that make an effective thermo connection?

A. If by effective you mean efficient it is not too efficient, no. That is why I differentiate between that and fins.

(Deposition of Evans T. Morton.)

Q. These are not as efficient as fins, but they serve the same purpose less efficiently, is that your testimony?

A. Fins are an extension of the primary surface which we speak of as the tube itself. The secondary surface in a coil is spoken of as the fins and would normally be an efficient bonded arrangement.

You are trying to get me to say on a matter of degree that a tube a foot from the surface would also be an inefficient arrangement of a fin, if I accepted your definition.

Q. Your liners are a so-called secondary heat-exhausting surface, are they not, in the Admiral Model 1090 and later models?

A. In the same way that a floor is a secondary surface in a floor-heated building.

Q. Have you anything else to add to that answer to Interrogatory No. 40?

A. Again, the substantially stable temperature of 40 degrees is not a true condition under use. [1016]

Q. As you have explained before?

A. Yes.

Q. Is there anything further? A. No.

Q. Now, the next interrogatory which I would be glad to handle in the same fashion if it helps any, is Interrogatory No. 42:

‘In the Admiral refrigerator, Model 1090, does the freezing compartment have a refrigerant expander associated therewith which has heat-conducting surfaces constructed and arranged to be

(Deposition of Evans T. Morton.)

maintained during normal operation at temperatures well below 32 degrees Fahrenheit while withdrawing heat from the freezing compartment?’

A. On the basis of the way it is stated the answer is yes.”

The Court: How about page 358, “That it is not in the precise language of the claim”?

Mr. Cuninghame: Yes. That’s it, sir. Thank you.

“That it is not in the precise language of the claim.

A. Speaking of the tubes as an expander the expander is not in the compartment.

Q. (By Mr. Cuninghame): The next question is No. 44:

‘In the Admiral refrigerator, Model 1090, [1017] is there a volatile refrigerant circulated through the expanders?’ A. No.

Q. Will you explain that answer, please?

A. The question is stated on the basis of a single refrigerant going through both expanders, and that is not true.

Q. Is there a single refrigerant in each expander in the accused device?

A. This covers from 1948 to 1953?

Q. That is right.

A. There are two different refrigerants in the expanders.

Q. That is not my question, sir. If I ask you if there are two different refrigerants or two expand-

(Deposition of Evans T. Morton.)

ers perhaps you will tell me whether there is a single refrigerant in each expander.

A. There is a single refrigerant in—wait.

Are you asking if the same refrigerant is in each expander?

Q. No, sir.

A. Or the same type of expander?

What was the question?

Mr. Cuningham: Perhaps the question should be read.

(Whereupon, the question was read as above recorded.)

A. There is a single refrigerant in each expander. [1018]

Q. (By Mr. Cuningham): Thank you. The next question is No. 46:

‘In the Admiral refrigerator, Model 1090, is there a single liquefying unit associated with the expanders and so constructed and arranged as to condense refrigerants expanded by heat extracted by the expanders from both the cooling compartment and the freezing compartment?’ A. No.

Q. Will you explain that answer, please?

A. The liquefying unit is so arranged as to liquefy the refrigerant circulated through the freezing locker. The refrigerant of the food liner is liquefied by a condenser associated with the secondary system.

Q. Do those condensers operate independently?

(Deposition of Evans T. Morton.)

A. There is only one condenser. You don't have a condenser in the secondary system.

Q. Do I understand your testimony to be that there are two liquefying units in the whole construction, one being associated with the expander in the freezing compartment and the other associated with the expander in the cooling department?

A. Yes, sir.

Q. Are those independent of each other?

A. By that you mean will either one work independently of [1019] the other?

Q. Do they work independent of the other, as a matter of fact; to which there should be no disagreement. If we are reasonable men we don't disagree about facts.

A. It is necessary to have a condenser of a secondary system at a lower temperature than the evaporator of the same system, and on that basis the refrigeration effect is provided by the freezing locker liquefying unit.

Is that what you are driving at?

Q. The freezing effect of what? The expanders in the cooling compartment?

A. The expander in the cooling compartment. Part of that expander in the cooling compartment is attached to the condenser of the secondary system.

Q. And actuated thereby? A. Yes.

Q. The next question is No. 48:

'In the Admiral refrigerator, Model 1090, is a

(Deposition of Evans T. Morton.)

volatile refrigerant circulating through expanders the sole heat extracting medium?’

A. I would have to answer that no.

Q. Why?

A. Since there are two refrigerants.

Q. Are they both volatile?

A. They are both volatile, yes. [1020]

Q. Have you completed your answer?

A. Yes.

Q. Now Interrogatory No. 50:

‘In the Admiral refrigerator, Model 1090, is there a thermostat responsive to the temperature in one of said compartments, which controls the operation of a single liquefying unit?’

A. I would answer that no, since the thermostat is outside of the compartment.

Q. Have you finished your answer?

A. Yes.

Q. Now Interrogatory No. 52:

‘In the Admiral refrigerator, Model 1090, is there a single control responsive to a condition reflecting the temperature maintained in one of said compartments which controls the operation of a single liquefying unit for circulating a volatile refrigerant through the expanders?’

A. I would say no, since it circulates through only one expander.

Q. Is that your only reason for a no in answer to that question? A. Yes. [1021]

Q. Let me ask you a couple of questions:

(Deposition of Evans T. Morton.)

Mr. Morton, I will show you a copy of your patent numbered 2,061,350."

Mr. Cuninghame: Just a minute. This may not be pertinent, your Honor. No, it's pertinent.

"What is the moist control in that patent?

The Witness: That particular arrangement as shown here was never actually produced. We will just check that to be sure.

That was a model that was designed, but schedules were canceled.

For this particular model the schedules were canceled out and we never produced it. It was Admiral CD746 and 946. In 1945 or 1946 was when it was originally planned for.

Q. (By Mr. Cuninghame): Do you recall the reason for not going through with your plan?

A. Primarily the shortage of steel that existed at that time.

Q. And the plans were never resurrected?

A. No, not in the direction this design took.

Q. Can you tell me what patents of yours or under which you are licensed are marked on the models, the list of which I read to you?

Can you also tell me from that volume of patents or glancing through the index or drawings which ones have [1022] ever been commercially used by Admiral?

A. That would take considerable time for me to study that through.

(Deposition of Evans T. Morton.)

Q. Would you do so? You have copies of those patents.

A. If my files have not been robbed. With Mr. Ramsey, I would say I have.

Q. Maybe not today, but in this volume there was a complete list of the Admiral patents or the patents owned by Admiral, and there is a complete list of the refrigeration patents, and I am limiting it to that, under which Admiral is licensed. That information is available to you through Mr. Byron or through me, if you want it, and if you have copies, as I understand you do, of your own patents and licensed patents, would you mind advising Mr. Byron by letter so he can advise me which ones have been used commercially?"

The Court: Well, what is the relevancy of that statement?

Mr. Cuningham: Well, we were digging out the information.

The Court: Let's read only those portions which have some probative value.

"Mr. Cuningham: Q. Has Admiral Corporation issued any licenses in household refrigeration filed under any patent it owns or has license rights under?"

Mr. Byron: I think that has no pertinency here whatsoever. [1023] I think it was so settled yesterday in conference.

Mr. Cuningham: On the contrary, your Honor.

(Deposition of Evans T. Morton.)

I think it was settled as to the reverse and it was part of the hypothetical question.

The Court: Well, the man doesn't know anything so——

Mr. Cuningham: Well, your Honor, he tells us that there were a number of licensees under it. That's something.

The Court: All right. Go ahead.

Mr. Cuningham: I will skip the next answer he gave and ask the next question. [1024]

“Q. To whom is that license issued, do you recall?”

The Court: Well, he says, “I believe there is one covering a refrigerator door gasket.” Now you can go ahead, “To whom is that license issued, do you recall?” Page 368.

“A. There are a number of licensees under that patent. I cannot give you the names for sure of any specific one, or the rubber companies.

Q. Can you pick out that license number there in the index?

A. The index merely gives numbers and names.

Q. Was that your patent? A. Yes.

Q. That it gets down to half a volume, anyway.

A. I believe that is 2,636,228, but I would appreciate it if you would have Mr. Douglass verify it.

Q. What date is that?

A. April 28, 1953.

(Deposition of Evans T. Morton.)

Q. Can you recall the names of any of the licensees?

A. I would not be certain of any name I would give you.

Q. But it is your impression a number of licensees are involved? A. Yes.

Q. And I suppose since the issue?

A. That's right.

Q. Do you have any knowledge of the royalty rate? [1025]

A. I am not certain myself. I believe it is in the nature of probably a cent or a cent and a half. Mr. Douglass could answer that.

Q. Per gasket? A. Right.

Q. How many gaskets are used in a refrigerator?

A. Generally one. I know of no one using them that would use more than one gasket. Possibly on a two-door there might be two.

Q. Are there any other patents that you recall as being the subject of licensing by Admiral to anyone else? A. I do not know that.

Q. Do you know whether these licenses to Admiral Corporation from General Electric, Westinghouse and General Motors were also licensed to others in the industry than Admiral?

A. I do not know for certain. I would believe they have been.

Q. The General Motors license, I will point out for the record, was amended January 21, 1948, because of a more favorable clause in the Admiral

(Deposition of Evans T. Morton.)

license, which would indicate there were other licensees.

You have no idea how widespread or liberal that license was of any of these three concerns, have you?

A. It was my impression they were willing to license to anyone. [1026]

Q. Was it your impression that most manufacturers took a license under these, or do you know?

Mr. Byron: I don't believe he would know.

The Witness: I don't believe I am in a position to answer that.

Mr. Byron: Is that all?

Mr. Cuninghame: All right; I believe that is all."

The Court: Does that conclude the deposition?

Mr. Byron: No; we wish to offer in evidence the license agreements in which General Motors granted a license to Admiral, General Electric granted a license to Admiral, and Westinghouse granted the license to Admiral, and those——

The Court: Is there any objection?

Mr. Cuninghame: I do not see the pertinency of them at the moment.

Mr. Byron: I will explain the pertinency, your Honor. The license agreement from General Motors to Admiral, marked Plaintiff's Exhibit 3-KK, indicates or shows that the royalty rate was 25 cents per refrigerator, and there were at least eight patents involved in that license, a total, a royalty

rate of 25 cents under the eight patents. That is pertinent in connection with the royalty rate.

The Court: I think so, Mr. Byron. The only thing that I was concerned about is, is this the proper time to introduce [1027] those exhibits, or should they be introduced on the defense case in chief? That is the only question I am raising.

Mr. Byron: Yes, and the answer is, your Honor, these are their exhibits. They called for them. Now apparently they do not want them in. We do.

The Court: Were they identified?

Mr. Byron: Yes, they were.

The Court: In the deposition?

Mr. Byron: In the deposition, yes, and in the pre-trial.

The Court: They have elected not to offer them?

Mr. Byron: Yes.

Mr. Cunningham: No, we marked them—he is using our copies.

The Court: Are you offering them, Mr. Cunningham?

Mr. Cunningham: Not at this time, your Honor. I do not think it is proper. I do not think they are relevant.

Mr. Byron: Defendants are offering them.

The Court: They may be admitted. If you do not offer them, the defendants can offer them now.

Mr. Cunningham: I will identify these. The license agreement from General Motors, Frigidaire Division, to Admiral is identified as Plaintiff's Exhibit 3-KK. It is now offered in evidence.

The Court: It may be admitted. [1028]

(Document, License Agreement above referred to, heretofore identified as Plaintiff's Exhibit 3-KK, was received in evidence.)

The Court: Where are they referred to in the deposition? I do not see it. You said they were identified.

Mr. Cuninghame: My recollection is, your Honor, that Mr. Byron sent these to me at a later date for the deposition, and we, of course, have had them here right along. They are part of our marked exhibits, but I do not see the pertinency of them.

The Court: Go ahead. I have already ruled on that.

Mr. Byron: The license agreement from Westinghouse Electric Corporation to Admiral Corporation identified as Plaintiff's Exhibit 3-JJ is now offered in evidence.

The Court: It may be admitted.

(Document, License Agreement referred to, heretofore identified as Plaintiff's Exhibit 3-JJ, was received in evidence.)

Mr. Byron: There is the license agreement between Westinghouse Electric Manufacturing Company to the Admiral Corporation identified as Plaintiff's Exhibit 3-II. It is now offered in evidence.

The license agreement from General Electric Company to Admiral Corporation identified as Plaintiff's Exhibit 3-GG is now offered in evidence. [1029]

Mr. Cuningham: If your Honor please, I think those exhibits are incomplete without copies of the patents licensed. We have got no full information, and this is a big picture we are opening the door to here, and I think he ought to include the patents licensed so we can see what they were.

The Court: Mr. Cuningham, that is precisely what I told you yesterday before you asked the hypothetical question about the gasket. I told you that very thing, but you insisted upon asking the question, and I am going to rule the same way for Mr. Byron as I did before.

Mr. Cuningham: Your Honor, my gasket patent was in evidence, but I will stand on the record.

Mr. Byron: The license between General Electric Company dated August 28, 1950, and Admiral Corporation, identified as Plaintiff's Exhibit 3-HH, is now offered in evidence.

The Court: They may be admitted.

(Documents, License Agreements heretofore referred to as Plaintiff's Exhibits 3-GG, 3-II and 3-HH, were thereupon received in evidence.)

The Court: What about the cross-examination? Are you abandoning that, or do you propose to read the questions propounded to the witness?

Mr. Cuningham: There are just a couple of pages of it, [1030] your Honor.

The Court: I am not objecting to it. I am just asking him whether he is going ahead.

Mr. Byron: Yes, we will just take a couple of minutes.

The Court: Then there is some redirect.

Mr. Cuningham: It may be my duty to read the cross, as a rule, as I understand it.

Mr. Byron: I do not understand that.

The Court: These are the questions propounded by Mr. Byron, and Mr. Byron or somebody designated by him will ask those questions, in accordance with our previous understanding.

Mr. Cuningham: They are discovery depositions.

The Court: That is right.

Mr. Cuningham: I have no desire to read them. I am just trying to abide by the rules.

The Court: Go ahead, Mr. Byron.

(Thereupon, the reading of the deposition of Evans T. Morton was continued as follows:)

DEPOSITION OF EVANS T. MORTON

“Cross-Examination

By Mr. Byron:

Q. Near the end of your deposition, the direct examination, Mr. Cuningham read several interrogatories under Rule 33, addressed to the defendant Meier & Frank Co., [1031] Inc., and asked you to answer certain of those interrogatories.

Had you ever seen or heard any of those interrogatories before you testified here today?

A. No.

(Deposition of Evans T. Morton.)

Q. In your direct examination I gained the impression that Admiral Corporation ignored patents of others in the development of its refrigerators. What is the fact?

A. That is not true. What I meant to state was that because of the multiplicity of patents in this industry, something in the neighborhood of I think seventy-five to eighty thousand, it proceeds with the development in the initial stages, ignoring patents, and when development is in a stage where it seems that practical results can be obtained we immediately go to patent counsel for a review of the design to determine whether or not we are in any way involved in patent problems. Is that clear?

Mr. Byron: That is clear, yes. The cross-examination is closed."

"Redirect Examination

By Mr. Cuninghame:

Q. I will show you, Mr. Morton, one of several advertisements of the Admiral Corporation, or a photostatic copy of one of those which has been furnished me by Admiral, and which unfortunately did not come with a date." [1032]

Mr. Cuninghame: I offer as Plaintiff's Exhibit 3-LL this group of Admiral advertisements furnished by the Defendant Admiral.

Mr. Kolisch: No objection.

The Court: It may be admitted.

(Deposition of Evans T. Morton.)

(Group of photostatic copies of advertisements of Admiral Corporation, previously identified as Plaintiff's Exhibit 3-LL for Identification, were received in evidence.)

Mr. Cuningham: Continuing with the question:

"* * * which unfortunately did not come with a date.

Mr. Byron, that is true of several of these. They missed a little slip at the bottom in the photostatic copy they made, but I trust we can cure that later."

The Court: What difference does that make?

Mr. Cuningham: It explains the condition of the exhibits, your Honor. They have not been corrected.

"* * * at the bottom in the photostatic copy they made, but I trust we can cure that later.

It has as a headline: 'We betcha you never saw such "rave notes"——'

Mr. Byron: "Lead line." [1033]

Mr. Cuningham: I beg your pardon, "lead line: 'We betcha you never saw such "rave notes"——'

When a really new invention as utterly different from all other refrigerators as Dual-Temp reaches the public, you naturally wonder: "How's it doing * * * in actual use?" "

What really great invention did Admiral Corporation have in mind?

Was that one of the really great inventions you considered with outside counsel?

(Deposition of Evans T. Morton.)

A. We were granted a patent on both the refrigeration system and the refrigerator cabinet construction for this refrigerant.

Q. Are any of the inventions covered in the patent in that volume of Admiral patents what you would call really great inventions, maybe with the exception of this patent you are licensed under?

A. A really great invention would eliminate probably 99 per cent of the patents. I am speaking of all patents generally.

Q. Including Admiral's?

A. I would say it is not considered a great invention in line with the electric light bulb or the telephone.

Q. Or Armstrongs frequency modulation?

A. It is not that nature of invention.

Q. Then this must have been one of the one per cent. What [1034] one per cent in the refrigeration business can you imagine was meant by this really great invention?

Wasn't it a fact, Mr. Witness, that the Potter two-temperature refrigerating system spurred the interest of Stewart-Warner in this two-temperature refrigerator field? Don't you know that is a fact?"

Mr. Byron: I object to that, your Honor. It has no bearing here, but let him go on.

The Court: Very well.

"A. I can answer the question on the basis that at no time do I recall anyone at Stewart-Warner

(Deposition of Evans T. Morton.)

bringing up any other two-temperature refrigerator in development.

Mr. Cuningham: That is all."

The Court: That closes the deposition.

Ladies and Gentlemen, we did not take our recess at the end of one hour, but I thought we ought to finish this deposition. We will take a short recess.

(Thereupon, the jury retired for the morning recess.)

The Court: What other depositions do you propose to read?

Mr. Cuningham: Sir, I am going to skip through this [1035] thicker volume of Admiral depositions.

The Court: I thought it was agreed that anything that was not pertinent would be deleted in this Morton deposition and these other ones. I see a lot of information concerning former employees of Stewart-Warner that has absolutely no relevance to this case.

Mr. Cuningham: I think it does have, sir.

The Court: Well, you just wait until I instruct the jury and tell them what I think about this Stewart-Warner. I am going to tell them very specifically that Stewart-Warner has nothing to do with this case and that they are to disregard totally any evidence in that regard. We will take a ten-minute recess.

(Thereupon Court and counsel took the morning recess.)

The Court: What deposition do you propose to examine now?

Mr. Cuninghame: Your Honor, Mr. Byron and I have been checking them. We are skipping through these thick ones and then starting with the first one which is Siragusa.

The Court: Do you propose to read any other portions, or have you read——

Mr. Byron: Yes, your Honor.

The Court: On Siragusa?

Mr. Cuninghame: I will go slow, sir, and announce where [1036] we are skipping.

The Court: Very well.

Mr. Byron: I will start to read on Page 8 of the Siragusa deposition.

Mr. Cuninghame: I would start a little ahead of that, if I may.

Mr. Byron: Oh, excuse me.

The Court: Page 8 is the first page.

Mr. Cuninghame: The only thing I would like to call attention to, your Honor, is that on Page 2 they are noticed as discovery depositions of the adverse party.

The Court: Yes.

Mr. Cuninghame: I was going to start on Page 8.

Mr. Byron: All right.

(Thereupon, the deposition of Ross D. Siragusa was read into the record as follows: With Mr. Cuninghame reading the questions and the Court Crier reading the answers.)

DEPOSITION OF ROSS D. SIRAGUSA

“Q. Please state your name, residence and occupation.

A. Ross D. Siragusa, Admiral Corporation, 3800 Cortland Street, Chicago 47, President.

Q. And your residence?

A. Barrington, Illinois.

Q. How long have you been president of Admiral Corporation?

A. Approximately twenty years. [1037]

Q. How long has Admiral Corporation been in existence? A. Approximately twenty years.

Q. Have you been its president throughout its existence?

A. I think so. We might have had a two or three-month period when perhaps a lawyer was president. I don't recall. But for your information, we will mark the record since the inception.

Q. That is entirely satisfactory. What were your connections prior to your becoming president of Admiral?

A. I was president of Transformer Corporation of America. Is that relevant?

Q. It is preliminary.

A. I dispute that. I disagree. Let us start with Admiral Corporation, if you don't mind.

Q. You refuse to answer?

A. No, look, Mr. Cuninghame, it isn't a question of refusing to answer. I don't think that is a fair question.

Q. Prior to becoming president of Admiral?

(Deposition of Ross D. Siragusa.)

A. That is right.

Q. And what prior to that? A. School.

Q. What was the business of Transformer Corporation? A. Manufacturing transformers.

Q. How long were you in that association?

A. Oh, approximately eight years.

Q. And then for the last past twenty approximately you [1038] have been president of Admiral, is that correct? A. That is right.

Q. What is the business of Admiral Corporation?

A. Manufacturing and distributing electronic apparatus, refrigerators, ranges, freezers, air conditioners, electric ranges.

Q. That is as of the present time?

A. Well, I believe that was the question you asked.

Q. Yes. I just want to make sure we are talking about the right thing.

Now, what was the business of Admiral Corporation twenty years ago when you became its president? A. Manufacturing radio sets.

Q. Only? A. Only.

Q. Can you tell us briefly for the record the history of the product development of Admiral Corporation?

A. It is in a little book and that is available to you.

Q. I would be very glad to have it. May I have a copy?

(Deposition of Ross D. Siragusa.)

A. Yes. That gives you the thumbnail sketch of the last twenty years."

Mr. Cuningham: If your Honor please, a copy was produced and identified in this case as Plaintiff's Exhibit 3-Z. I offer it in evidence, a little pamphlet. [1039]

Mr. Byron: I object to it because it is not material here at all, but what difference does it make what the history of Admiral is?

The Court: What do you claim for it?

Mr. Cuningham: Well, your Honor, it shows in thumbnail form the history of the Admiral Corporation, including how they got into the refrigeration business, and contains, for example——

The Court: Let me see the book. We have a lot of exhibits here. Go ahead. I will take this under advisement.

"Q. Well, it is common knowledge, I guess, the Admiral Corporation was primarily engaged in the electronic business and particularly in radio and later in the television business?

A. Well, before television, chronologically, I believe, before television we manufactured refrigerators, I believe, and electric ranges.

Q. When did you begin the manufacture of refrigerators?

A. That is a matter of record. I can't give you the exact period.

Q. Well, give me it as exactly as you can by the year.

(Deposition of Ross D. Siragusa.)

A. I can't give it to you even to the year because of the war. I believe it would be around 1945 or 1946. I am guessing.

Q. So it was after World War II?

A. I would say so. [1040]

Q. Then, if I understood you correctly——

A. Television followed that.

Q. Television followed the refrigeration?

A. Yes.

Q. Had you had any contact with the refrigeration business before? A. No.

Q. Or the Admiral Corporation? A. No.

Q. Well, now, you personally had had contact prior to your joining Admiral in the radio business, had you not, or had experience in the radio business?

A. Transformer Corporation of America made transformers and a few radios.

Q. Has the name of Admiral Corporation always been Admiral Corporation?

A. No. It was originally started as the Continental Radio & Television Company back twenty years ago. It changed its name about in—the book will give you that, this little historical background.

Q. Well, I would like your recollection now, if I may.

A. About 1939 or 1940, to the best of my ability. I can't recall the exact year the name was changed to Admiral Corporation.

Q. Can you recall any connection with the Sonora Company? [1041]

(Deposition of Ross D. Siragusa.)

A. We made some radio sets before the war under the Sonora brand. The Sonora Company, I just don't recall whether it was a corporation or whether we just made a brand name set for an individual.

Q. But you personally had no connection with the company by the name of Sonora?

A. No, I personally didn't."

Mr. Cuningham: Now, if your Honor please, I would like to skip to 116, bottom of the page.

The Court: To 116?

Mr. Cuningham: I beg your pardon, to 16, bottom of the page.

"Q. Have you any recollection of who——"

The Court: One second; do you want to read any more (to Mr. Byron)?

Mr. Byron: Not at that point.

Mr. Cuningham: We had cleared, I think, pretty much through this Siragusa deposition.

The Court: Very well.

"Q. Have you any recollection of who is a top officer in Admiral besides yourself? [1042]

A. Yes.

Q. Who? A. John B. Huarisa."

Mr. Byron: Of course, your Honor, I want to make it clear that I think there is a lot of material in here that Mr. Cuningham may read that will have no materiality. It does not make any difference who was vice-president. He was asking those

(Deposition of Ross D. Siragusa.)

questions for discovery so he could go and find out something from those gentlemen, but that eventuated to nothing, and I do not know if it will serve any useful purpose to read those parts. I have no objection to it.

Mr. Cuninghame: I have tried to cut them down. I am skipping. There is a relationship with the identification of certain of these individuals that I think is material.

The Court: All right.

“Q. What is his position?

A. Executive Vice-President.

Q. How do you spell it?

A. Let us get the annual report. I think we can save time, Miss Court Reporter, and just include the annual report, and right on the front page is a list of all the officers and their respective [1043] titles.

Would you care to come back to that after you have had a chance to review the annual report?

Q. I think I can go ahead in the absence of that with some questions. A. All right.

Q. By the way, what general divisions product-wise do you have in Admiral Corporation?

A. Well, we have the Electronics Division, which is radio, television and government; and we have the Appliance Division, which includes refrigerators, air conditioners, freezers, ranges, dehumidifiers; and we have several subsidiary companies that manufacture components for these two divisions.

(Deposition of Ross D. Siragusa.)

Q. Can you name some of the subsidiaries that manufacture for the Appliance Division?

A. Molded Products Corporation manufactures I believe some plastics for the Appliance Division. I don't recall any other subsidiary manufacturing for the Appliance Division.

Q. Who makes your cabinets for refrigerators?

A. That is made in the Appliance Division, and the Appliance Division is spelled out in the annual report. It is the Midwest Manufacturing Company. They manufacture the cabinets.

Q. I am afraid I don't understand. Is Midwest—

A. Midwest Manufacturing Company is the subsidiary that manufactures appliances. I described all of the appliances to you. [1044]

Q. And Midwest is a subsidiary?

A. Of Admiral Corporation.

Q. Of Admiral Corporation?

A. That is correct.

Q. Are they located here in Chicago?

A. No. They are in Galesburg, Illinois.

Q. Who heads the Midwest?

A. Mr. Lou Moos, Vice-President of Midwest.

Q. You mentioned Mr. Huarisa.

A. Huarisa, it is right here, sir (indicating).

Q. John B. Huarisa. Is he as Executive Vice-President a top officer over both the divisions?

A. Both. Over all divisions, correct."

Mr. Cuninghame: Now I skip to 21, and just for

(Deposition of Ross D. Siragusa.)

the offer, we got the annual report in 1954, and I offer that as Plaintiff's Exhibit 3-AA.

Mr. Byron: It is not material.

The Court: That as well as the booklet is rejected on the ground that they have no relevance in this case whatsoever. You may have an exception to the ruling of the Court.

(Documents previously marked Plaintiff's Exhibits 3-Z and 3-AA for Identification rejected.) [1045]

"Q. Now, who is Mr. Edmond I. Eger, also listed here as a vice-president?

A. He is vice-president of advertising.

Q. Where is his office? In this building?

A. In this building.

Q. How long has he been vice-president of advertising? A. Approximately fifteen months.

Q. Who preceded him in that capacity?

A. Seymour Mintz, not as an officer."

Mr. Cuninghame: I will skip now to Page 24:

"Q. You don't sell any refrigerators to the Government? A. No.

Q. Who is Mr. Wallace C. Johnson, also listed as a vice-president?

A. General sales manager.

Q. General sales manager? A. Yes.

Q. That encompasses refrigerators as well as other products? A. Yes, right.

Q. Where is Mr. Johnson's office? In this building? A. In this building.

(Deposition of Ross D. Siragusa.)

Q. How long has he been associated with Admiral Corporation?

A. I don't recall. You will have to get it——

Q. Well, can you give me your best recollection, minimum or [1046] maximum number of years?

A. Ten or twelve years.

Q. That is for the past ten or twelve years?

A. Yes."

Mr. Cuningham: Then we jump to Page [1047] 32.

"Q. Mr. George E. Driscoll, secretary and assistant treasurer. A. Office of the building.

Q. What are his responsibilities?

A. Financial.

Q. How long has he held that position?

A. Well, as secretary, I would say three, four, five years. As assistant treasurer, since the first of the year, since approximately the first of the year.

Q. Does he have under him the accounting?

A. Yes."

Mr. Cuningham: I will skip to 41, bottom of the page.

"Q. Now, Mr. Siragusa—I can't read my own writing—is it Eger? A. Yes, sir.

Q. He is in charge of advertising. Does he have complete advertising records for the past fifteen months, or should he have?

A. You mean copies of advertisements?

Q. Yes. A. I am sure we have.

(Deposition of Ross D. Siragusa.)

Q. And I would like you to confine that to refrigeration advertising, household refrigeration.

A. It would be mountainous. You would have to wait quite a long time to get that information unless you requested [1048] specific ads. We could probably pick those up for you rather simply and easily.

You mean national advertising, magazines?

Q. Yes, magazines, yes.

A. You would be satisfied with those?

Q. I think so, yes.

A. Those are very easily, readily available.

Q. I would further like to narrow the request to the Dual-Temp advertising.

A. Dual-Temp, that is very easily done."

Mr. Cuninghame: I will skip the colloquy there.

"Q. Now, do you have a research and development laboratory in Admiral? A. Yes, we do.

Q. Who is in charge of that?

A. Well, we have three divisions. The Electronics Division is headed up by Mr. Rinaldo De Cola.

Q. His name is Rinaldo De Cola? That is one man, is it?

A. One man. We have another laboratory in charge of Mr. Evans Morton at the Midwest Manufacturing Company. That has to do with appliances, which I stated some time before.

We have a West Coast laboratory which is devoted to electronics exclusively, and that is under Mr. Robert Jones.

(Deposition of Ross D. Siragusa.)

Q. So that, as I understand it, and correct me if I am [1049] wrong, the only research laboratory is that headed up by Mr. Evans Morton which concerns itself in any way with refrigeration, is that correct? The others are electronics?

A. That is right.

Q. And as I understand it, his laboratory is over all on appliances? A. That is right.

Q. And appliances includes the items you have named before? A. Yes.

Q. Can you give me some rough idea of the relative importance of refrigeration in this research laboratory as compared to the other appliances?

A. Well, I believe the bulk of the engineering, and it is a rather extensive lab, is devoted to research and development of refrigerator products.

Q. You would say that was the bulk of the work? A. Yes.

Q. Are you speaking as of now?

A. As of a long time back.

Q. How long a time?

A. Since we went out into the refrigerator business.

Q. Ten years?

A. Since we started the refrigerator business.

Q. That is approximately ten years ago, as I understand it? A. I believe so. [1050]

Q. Would you say that was most of the work of this large laboratory, research laboratory?

A. Yes.

(Deposition of Ross D. Siragusa.)

Q. Can you give me some idea of the personnel employed in that Midwest research laboratory?

A. I can't tell you the number of people employed in that division.

Q. Either the maximum or minimum?

A. I couldn't do that. I just don't know.

Q. More than ten?

A. Oh, yes, far more than that.

Q. More than fifty?

A. Well, it might be in the neighborhood of fifty or more.

Q. Are they all located in one place?

A. Yes.

Q. What is the address?

A. Galesburg, Illinois.

Q. Do you know the street address, or do we need it? A. No. It is a small town.

Q. Had Mr. Evans Morton, if you know it, had any experience in refrigeration engineering?

A. Yes. He came from Stewart-Warner.

Q. So that he has been with Admiral about ten years, is that correct?

A. Yes, all of that, I would say. [1051]

Q. How long had he been with Stewart-Warner, do you know? A. I can't answer that.

Q. Do you know what his capacity was while he was at Stewart-Warner?

A. Well, he was either chief engineer or assistant to the chief. I don't know which.

Q. Do you know how long he had been associated with Stewart-Warner?

(Deposition of Ross D. Siragusa.)

A. I said I didn't know.

Q. Was he the only research engineer that"—

Mr. Byron: I think I should enter an objection in view of the rulings heretofore given by the Court.

The Court: Mr. Morton has already testified. He has given you all this information. It appears you're interrogating a man who doesn't know these questions.

Mr. Cuningham: But here, your Honor, I am interrogating the President of the Admiral Corporation and who is stating much better than the witness himself can what he thinks of the particular witness, is putting him in his proper perspective for the Court and jury. It isn't the same as if you asked the witness himself what his qualifications were. I think we are entitled to this type of setting. That's the purpose of the exhibit.

The Court: Do you want to show he is incompetent or [1052] competent?

Mr. Cuningham: It shows that he is very competent and that he has a lot of information.

The Court: All right. Go ahead.

Mr. Cuningham: "Q. Was he the only research engineer that came from Stewart-Warner to Admiral at the time of the transfer?

A. I believe, I am not sure, but I believe that several other men came to us from Stewart-Warner when we bought that division. But that information is readily available."

Mr. Cuningham: And then I jump to 51.

(Deposition of Ross D. Siragusa.)

“Q. Max J. Schinke?

A. Yes, he works for us as service manager of Admiral Corporation, all divisions, general service manager.

Q. Did he come over at the time of the transfer in 1945 or 1946, whatever it was?

A. That is right.”

Mr. Cuningham: Skip to 52.

“Q. How about Mr. Glenn Muffly?

A. I don't know—yes, I do. I met Mr. Muffly many years ago. He has never been with us.

Q. Has he ever been retained by you as an expert in refrigeration? [1053]

A. He might have been, and I think that is perhaps where I met him. I believe you are right.

Q. Is he currently so retained?

A. I don't know. Is he?”

Mr. Cuningham: Then to 55.

“Q. Now, Mr. Siragusa, you have referred to this”—I may want to strike this. Just a minute—or omit it, I mean. I think I shall omit it and go to 59.

Your Honor, I had planned to read from the middle of page 59 to the colloquy at the end of 65. I am wondering, in view of your Honor's ruling, whether I should do so. As far as I can see it's all relevant and I don't want to appear to violate any ruling.

Mr. Byron: Of course, my thought is it's not relevant.

(Deposition of Ross D. Siragusa.)

Mr. Cuningham: Well, certainly—how far did I say?

Mr. Byron: 59 to 65.

Mr. Cuningham: I think certainly on 63 it is relevant.

The Court: On 63 it is what?

Mr. Cuningham: Relevant, it seems to me, sir. In fact, I have no question about that. I would be glad to proceed unless you think I should not. Middle of 63.

The Court: You mean you are going to start at the middle of 63?

Mr. Cuningham: No. I would like to start, if your Honor [1054] has no objection—

The Court: Well, Mr. Cuningham, throughout the day you have been trying to tie in Stewart-Warner with this case in spite of my repeated admonition that Stewart-Warner has no connection with this case.

Mr. Cuningham: Well, your Honor—

The Court: You have listed time and again members of the—in the deposition of officers who came from Stewart-Warner, and then when I ask you the relevancy you wanted to note a characterization, and then when the statement came in that this was the time of transfer you dropped the examination.

Mr. Cuningham, I think that you ought to stop doing that and abide by the rulings of the Court.

Mr. Cuningham: Well, your Honor—

The Court: Ladies and gentlemen of the jury,

(Deposition of Ross D. Siragusa.)

I am going to tell you right now that Stewart-Warner has nothing to do with this case. The Admiral people bought some assets from Stewart-Warner and they are not bound by anything that Stewart-Warner did. If you buy a store unless you specifically agree to be bound by the engagements of the former owner, you are not bound by it. And by the same token Admiral is not bound merely because it bought some of the assets, including some of the patents.

Now, I instruct you that as a matter of law.

Mr. Cuningham: I am—— [1055]

The Court: The motion is—you may have an exception to my remark and you are not to read the portions you suggested.

Mr. Cuningham: That's beginning on 59 and going over, your Honor—I am merely reminding you of this, the statement by Mr. Cuningham on page 63.

The Court: Well, pass this one for the time being and we will come back to it. I want to read it more carefully.

Mr. Cuningham: I will jump, then, your Honor, to page 89, and I would like to look at it before we start reading it.

Well, your Honor, I must admit your ruling is tough. Of course, these depositions were taken before. There is a reference there. My plan was to read from 89 to 91, through 91 and over to the top of 92.

(Deposition of Ross D. Siragusa.)

The Court: Well, I think it's clearly inadmissible.

Mr. Cuningham: We will not read it. Then I intended to go to 95, and again I don't know without looking at it—I guess that's all right, sir.

Mr. Byron: Well, I have the sequence as 95, beginning about six lines down, "Can you tell me which type of refrigerator has shown you in the past your highest and best profit, and by type I mean of the two general types, the conventional or dry cold as distinguished from the Dual-Temp, as between those two categories of boxes?" Then the answer. [1056]

Mr. Cuningham: I think that was a question by me.

Mr. Byron: "A. Mr. Cuningham, is that relevant? I can answer it.

Q. I think it is quite relevant.

The Witness: Is it relevant, Mr. Byron?"

Mr. Byron: Well, do you want that colloquy?

Mr. Cuningham: Yes, I think we ought to have it.

Mr. Byron: "Well, it is one of those borderline questions. I will put in an objection that it is not relevant.

Mr. Baltz: It may be that you don't want to answer it.

Mr. Cuningham: I don't want the figures. I just want which is the best profit opportunity.

The Witness: If counsel says to answer it, I will be glad to answer that question.

(Deposition of Ross D. Siragusa.)

Mr. Byron: Yes, answer it.

A. Conventional boxes. May I tell you why?

Q. (By Mr. Cunningham): I was just about to ask you why?

A. Many times the number of units.

Q. That are sold? A. Oh, many times.

Q. Is the profit ratio per unit greater on the conventional or on the Dual-Temp?

A. On a weighted average basis, it would be higher on the conventional.

Q. I am afraid I don't understand what you mean by weighted [1057] average basis.

A. Yes, weighted average means if we have nine conventional boxes in a line, seven and eight and nine or ten or eleven, of various types, such as stripped, standard, de luxe, you weigh the average for the year, you take a profit factor, and that is a weighted percentage, and that is higher than the Dual-Temp or two-temperature. We call that the Dual-Temp or two-temperature. I tried to qualify the meaning of the word Dual-Temp in that answer.

Q. Which type, conventional or Dual-Temp, was sold in greatest dollar volume by Admiral over the past ten years? A. The conventional.

Q. In dollar volume? A. Sure.

Q. With respect to your plugging or promoting of these two types, on which do you spend the most money in advertising? A. The two-temp.

Q. You have consistently sold both types right along, have you not?

(Deposition of Ross D. Siragusa.)

A. Yes, but by far the conventional, by far in number of units or dollars, the conventional, by far.

Q. And as I understood your testimony, in profit per unit?

A. By far, weighted average and total dollars, conventional.

Q. How about without the weighted average? How about just the profit per unit, is that more or less? [1058]

A. In dollars?

Q. Yes, in dollars.

A. Well, you see, you will have to make the question more specific. We make a seven, an eight, a nine, a ten and eleven foot standard refrigerator. Well, we make them up to twelve cubic feet in size. Which one are you referring to, the Dual-Temp box and what, a seven foot? Obviously, the Dual-Temp would have a higher profit factor. But if you get into an eleven foot deluxe conventional, we have more profit in an eleven foot deluxe than we would in a Dual-Temp. Our margin of profit is very small in the Dual-Temp.

I know it creates a frown on your face, if I make that statement.

Mr. Cunningham: I am sorry if I frowned.

The Witness: No, but it is true.

Q. (By Mr. Cunningham): Can you give me any idea in dollars and cents how great the difference is?

A. No, I can't. That would have to be studied

(Deposition of Ross D. Siragusa.)

and after—strike this from the record. This is off the record.

Mr. Cuninghame: All right.

(Whereupon, a discussion was had off the record, after which the following proceedings were had herein:)

The Witness: I will not disclose that information. You will have to get a court order for our profit structure on [1059] our various products, not only on appliances, but radio and television also. I will not disclose that information. I have tried to give you to the best of my ability a rough idea of what the profit structure would be on both types of the units.

Q. (By Mr. Cuninghame): Mr. Siragusa, I have before me a 1950 copy of Air conditioning-Refrigeration News, dated July 1, 1950, the second page of which lists the usual information as to the products of Admiral. Apparently in that year you sold only two Dual-Temp models, namely, model Nos. 1090 and 1390. At least that is all that is reported here. Is that correct?

A. I remember those model numbers. Those would be described as ten and thirteen feet respectively.

Q. They are so described here. The 1390 is 13.5 cubic feet? A. That is right.

Q. And the 1090 is 10.6. Now, there seems to be nothing that precisely corresponds among the other eight models, which are all of the conventional

(Deposition of Ross D. Siragusa.)

type. Is that a representative list of your refrigerators sold at that time?

A. For four or five years, I would say, we had an average of two Dual-Temps in the line and possibly as many as twelve, thirteen, fourteen conventionals. The past several years, perhaps two or three years, we have had an average of one to one and a half Dual-Temps in the line and fourteen, fifteen, [1060] sixteen conventionals. That is why the preponderance of sales and profits is in the conventional and not in the Dual-Temp.

Q. Well, tell me if you think you are not qualified to answer this. I want to be very fair about it.

But how does that stack up with the experience of other refrigerator manufacturers, such as Frigidaire, General Electric? They don't use your trade name.

A. As far as two-temperature boxes are concerned?

Q. Yes, moist-cold boxes.

A. Well, I really can't answer that. I don't know what my competitors do.

Q. Do you attempt to keep abreast of your competitors?

A. I do, insofar as specifications and prices and styling are concerned, but not a breakdown of models. I obviously couldn't get that.

Q. But do you attempt to keep abreast of the two general types of refrigeration, that is, the conventional and the moist-cold, I shall call it, to avoid using your trade-mark 'Dual-Temp'?

(Deposition of Ross D. Siragusa.)

A. Yes, we try to keep abreast of our competition, Mr. Cuningham.

Q. There are those two general types, are there not, in the refrigeration industry?

A. Yes. They are called either moist-cold or two-temperature or freezer chest and moist-cold combination, yes. [1061]

Q. As distinguished from conventional?

A. From conventional.

Q. Which is the dry.

A. And they in turn are distinguished—there are several in that category, the U-shaped evaporator box, the wide evaporator, and so forth.

Q. But there are those two broad categories of household refrigerators, are there not, say the dry cold versus moist cold?

A. Yes, I would say so.

Q. And those are generally accepted terms in the industry? A. Right.

Q. Has that been true ever since your knowledge and activity here at Admiral for the last ten years in the refrigeration business?

A. I believe that that has. I believe Frigidaire has had a moist-cold refrigerator for about as many as we have. I think they have. I don't know about the others."

Mr. Cuningham: I would like to skip to 109 and read it, your Honor. I plan——

The Court: I think this is a good time for a recess and then you can go through the balance of

(Deposition of Ross D. Siragusa.)

your interrogation and delete the offensive portions.

Ladies and gentlemen, we will take a recess [1062] until 1:45.

(Whereupon, at 12:05 o'clock p.m., a recess was taken until 1:45 o'clock p.m.) [1063]

Afternoon Session

(At 1:45 o'clock p.m. the trial herein was resumed, pursuant to recess, and further proceedings herein were had as follows.)

The Court: Which deposition were we reading?

Mr. Cuningham: If your Honor please, I think I have a better idea of the scope of your Honor's ruling, so we have cut down this materially. The next spot that I wish to start with in Siragusa is the latter part of Page 112. Mr. Byron may have something before that.

Mr. Byron: I have just a question and answer on Page 111.

The Court: Very well.

Mr. Byron: Mr. Cuningham asked the question. Perhaps you would like to ask it.

Mr. Cuningham: Do you want me to ask it?

Mr. Byron: You can.

"Mr. Cuningham: Q. Have you discussed the so-called Potter patent reissue in suit with any other refrigeration manufacturer?

A. I have not."

Mr. Cuningham: Then at the bottom of Page 112:

(Deposition of Ross D. Siragusa.)

“Q. Have you had any experience in reading and interpreting [1064] patents?

A. No use in showing it to me because I couldn't read a diagram from an architectural drawing.

Q. Who would be best qualified in the Admiral organization to give us such assistance?

A. I would imagine Mr. Morton would.”

Mr. Cuninghame: Then, if your Honor please, I would like to go to Page 134.

Mr. Byron: I would like to go to 132; cross-examination.

The Court: 132?

Mr. Byron: Correct.

The Court: All right; go ahead.

Mr. Byron: Cross-examination.

Cross-Examination

“Q. Mr. Siragusa, I would like to clear up one point with respect to patents owned or controlled by others than the Admiral Corporation. Do you respect patents owned or controlled by others than Admiral Corporation? A. Most certainly.

Q. And if you thought that you infringed any patent, you would either attempt to purchase it or secure a license under it? A. Yes, sir. [1065]

Q. State your general policy with respect to patents, and the policy that Admiral Corporation has with respect to them.

A. As I testified before, we have RCA, licensor, Hazeltine, and we may have some others in the appli-

(Deposition of Ross D. Siragusa.)

ance field, and in the electronics field as well.

If we feel that we are violating a patent or on the verge of it, we will attempt to take out a license. Failing in that, of course, we drop it or achieve a particular electronic objective—I speak of electronics, I mean I talk more about electronics because I am closer to that field—and we may design around it. But we first try to take out a license under the particular patent.”

Mr. Byron: That is all.

Mr. Cunningham: On redirect examination:

Redirect Examination

“Q. What licenses do you have in the refrigeration field?

A. I don't recall, Mr. Cunningham, but that I think our counsel or Mr. Baltz can give you. You might have to give him a day or two and then pick it up. They will get the information from Midwest, our subsidiary.

Q. You mentioned as examples of your respect for adversely held patents the Radio Corporation of America and Hazeltine Corporation. Is it not a fact that you brought a declaratory [1066] judgment suit against the Radio Corporation of America to declare invalid each of its 10,000 patents in the District of Delaware a few years ago?”

Mr. Byron: I think that is quite immaterial. I have no objection to it seriously.

(Deposition of Ross D. Siragusa.)

Mr. Cuningham: If your Honor please, it was opened on cross.

The Court: Well, isn't that the place a person should go to find out what his rights are, in court?

Mr. Cuningham: Well, I did not have in mind the particular court; the fact that he brought the suit against the 10,000 patents.

The Court: All right; you may answer.

“A. I believe we did. I believe we did.

Q. And I believe you backed down and settled the case, did you not? A. Yes.

Q. You set up some antitrust defenses, as I recall it? A. Yes, I think so.

Q. Is that an example of your respect and co-operation on other——”

The Court: Do not answer that question. [1067]

“Q. Did you respect the Armstrong patents in the electronic field? A. No——”

Mr. Byron: I think that is immaterial.

The Court: The jury is instructed to disregard all the testimony concerning the declaratory judgment suit. We are not trying any other case except the one involved here.

Mr. Cuningham: If your Honor please, I suppose that ruling extends to the next question and answer, but the one after that I should like to read.

The Court: What question is it?

Mr. Cuningham: Page 136; one, two, three from the top, third question.

(Deposition of Ross D. Siragusa.)

The Court: "What reserves——" Is that it?

Mr. Cuningham: That is correct.

The Court: Objection sustained. You cannot read that.

Mr. Cuningham: And the same applies to the answer to that?

The Court: That is right. It has no relevancy whatsoever.

Mr. Cuningham: If your Honor please, I will skip for the time being, without waiving my right to read this at another time in the case, the Bailey and the Rengel [1068] depositions.

The Court: Siragusa has been closed?

Mr. Cuningham: Yes. I would like to go to——

The Court: I do not understand. What is Bailey and Rengel?

Mr. Cuningham: I am omitting those for the moment. I do not expect to read them in our case in chief.

Mr. Byron: It seems to me that if they are going to be read at all they should be read now.

The Court: Before he closes his case, however; if you close your case you cannot read any more depositions unless it is for the purpose of rebuttal.

Mr. Cuningham: I should like to go to the deposition of Mr. Driscoll beginning on Page 202:

DEPOSITION OF GEORGE E. DRISCOLL

“Q. Give your name and address and years of employment with Admiral.

A. My name is George E. Driscoll, 6920 North Medford, Chicago. I have been employed here since 1936.

Q. Title?

A. I am the secretary and assistant treasurer.

Q. Can you tell us what the practice of the Admiral Corporation is with respect to——”

Mr. Cuninghame: I beg your pardon; that is not what I [1069] wanted it for, sir. I did not spot that. I want to skip now, after identifying him, to Page 204.

“Q. Now, in the year 1950, Admiral manufactured about ten different types of refrigerators, is that right?

A. No, we didn't make any refrigerators in 1950.

Q. 1950? A. No, sir.

Q. Well, your subsidiary, Midwest, made ten different types and Admiral sold them, is that right?

A. No, they wouldn't have made ten even in 1950; no.

Q. Well, give us the facts such as they are.

A. In 1950 refrigerators were made by Seeger Manufacturing Company in St. Paul, Minnesota, and the American Central Division of the Abco Corporation in Connersville, Indiana, and perhaps late, very later in the year 1950—I would have to check

(Deposition of George E. Driscoll.)

this—Midwest, a subsidiary of Admiral, began manufacturing refrigerators.

Q. So until late 1950 all of Admiral's production came from outside, of refrigerators?

A. Yes. I am a little hazy whether it is 1950 or 1951 when we bought Midwest. We bought it on March 31st, but I don't recall whether it is 1950 or 1951."

Mr. Byron: I do not see, your Honor, any materiality. [1070] The fact is, who made them for Admiral, Admiral sold them anyhow. We were not in a position to manufacture them at that time. We had them manufacture them, and we sold them.

Mr. Cuninghame: Your Honor, I hesitate to characterize it as an important defense, but when the Admiral Company got into the business is material in this case, as I think your Honor well knows, of the special defenses set up by the defendants, and, by the way, I would like to show you some exhibits we have on that.

The Court: I am going to let it in. Go ahead.

"Q. Was Midwest one of your suppliers at that time? A. No, sir.

Q. Did the Seeger and Abco companies build the refrigerators that were marketed by Admiral pursuant to Admiral specifications, drawings and requirements? A. That is correct.

Q. And did Admiral have personnel who engineered and supervised the construction of refrigerators sold under the Admiral name?

(Deposition of George E. Driscoll.)

A. That is correct."

Mr. Cuningham: Unless Mr. Byron has something, I think that is all of the Driscoll deposition.

Mr. Byron: I think not. [1071]

Mr. Cuningham: Then I would like to read the deposition of Mr. Johnson, except for colloquy, in its entirety, beginning on Page 214 and with other exceptions, if I notice them, to come under your Honor's ruling.

The Court: Very well.

(Thereupon the deposition of Wallace C. Johnson, a witness called in behalf of Plaintiff, was read into the record, with Mr. Cuningham reading the questions and the Court Crier reading the answers as follows:)

DEPOSITION OF WALLACE C. JOHNSON

"Q. Mr. Johnson, state your name.

A. Wallace C. Johnson.

Q. Where do you reside?

A. 6752 North LaPorte, Lincolnwood.

Q. What is your occupation?

A. Vice-president in charge of sales.

Q. How long have you held that position?

A. As vice-president?

Q. Yes. A. About seven years.

Q. I have been reading this little sketch of the company which gives me some information about you. I got the impression from it that you arrived in the early 1940's, is that right?

(Deposition of Wallace C. Johnson.)

A. That is right.

Q. In what capacity did you first join Admiral?

A. As regional manager.

Q. In what year?

A. That was in September of 1944.

Q. What were your responsibilities at that time when you joined?

A. I covered some twenty states.

Q. In all products? A. In all products.

Q. That did not, then, of course, include refrigeration, did it? A. About ten years.

Q. 1930 to 1940? A. Yes.

Q. Handling their radios and electronic products? A. Yes. I was a regional man.

Q. Not refrigerators? A. No appliances.

Q. This booklet says, and it is correct, is it not, that you are now vice-president in advertising, it says? A. No.

Q. I am incorrect. That is Mr. Seymour Mintz, and he is no longer with the company?

A. That is right. [1073]

Q. Are you familiar with this little booklet which is marked Siragusa Exhibit 1? A. Yes."

Mr. Byron: That has been excluded.

Mr. Cuninghame: Your Honor has excluded that.

The Court: Yes. Go to the top of Page 222: "Were you familiar in 1939——"

Mr. Cuninghame: Are you excluding Page 219, sir, at the bottom?

The Court: Yes.

(Deposition of Wallace C. Johnson.)

Mr. Cuningham: Going, then, through 220, 222?

The Court: I thought you were on 221.

Mr. Cuningham: If your Honor wants me to read it, I will. I did not plan to read it.

The Court: Which one?

Mr. Cuningham: 222.

The Court: I do not care what you read except that there are some things you are not going to read. Where do you want to go?

Mr. Cuningham: Let me get the place here.

The Court: I thought that when the booklet was mentioned you were on 221.

Mr. Cuningham: I was on 217.

The Court: 217? I do not care about that. You can [1074] read anything you want on Pages 217, 218, 219 and 220.

Mr. Cuningham: Perhaps we can skip some of it. The bottom of Page 219:

“Q. I think it is correct to say, is it not, that you were the top executive in 1944 with refrigeration experience?

A. No, I couldn't say that.”

Mr. Cuningham: Strike it.

Now I understood your Honor does not want me to read on 222 and 223.

The Court: Well, you can read: “Were you familiar in 1939 to 1940——”

Mr. Cuningham: What page, sir?

The Court: 222.

Mr. Cuningham: “Q. Were you familiar in

(Deposition of Wallace C. Johnson.)

1944 or earlier with the Stewart-Warner Dual-Temp? A. No.

Q. Were you familiar in 1939 to 1940, when you were selling the Gibson refrigerator, with the other competitive refrigerators on the market?

A. No, I was not, because I was not directly responsible for the refrigerator end of the business. I was concerned with RCA and its many products.

Q. Well, did you just happen to know of any combination [1075] freezer on the market in 1939?

A. No, I did not know of combination freezers of Stewart-Warner at that time. [1076]

Q. Or of any other manufacturer?

A. Or of any other manufacturer, not in 1939.

Q. When did you first know of a combination freezer-refrigerator?

A. When I came with Admiral, as the line developed."

Mr. Cuningham: I will skip the next sentence. Well, this is all a quotation from that booklet. We will skip that.

The Court: All right.

Mr. Cuningham: I would like to start in at the top of page 224, second question.

The Court: All right.

Mr. Cuningham: Maybe I had better start at the first question.

The Court: Go ahead.

Mr. Cuningham: "Q. Well, in any event, as far as your experience goes, was the Dual-Temp of Stewart-Warner the first such combination?

(Deposition of Wallace C. Johnson.)

A. The first that I knew about.

Q. Was it the first to feature moist-cold or humidity control in the fresh food compartment?

A. I wouldn't know that.

Q. You don't know of any earlier one, do you?

A. No. I just recall that Frigidaire had something like [1077] that, a cold wall. But that is all I do recall.

Q. You think they were earlier?

A. I don't really know."

Mr. Cuningham: Well, if your Honor please, I see no objection, even if it is a quotation, to starting in the middle of page 225.

The Court: Neither do I except I don't see the relevancy. But I am going to let you go ahead.

Mr. Cuningham: "Q. Now, continuing with this booklet, and I quote from page 12:

'The next step was to build up the Admiral trade name and at the same time develop a strong sales organization. This burden fell largely upon the shoulders of W. C. Johnson and Seymour Mintz.'

Can you tell us briefly, and limit your answer with respect to the refrigeration, what your main pitch was in selling refrigerators when you began to sell them after the war? What was your general sales argument that you and your organization used?

I will limit it to the Dual-Temp.

A. What our pitch was at that time with regard to Dual-Temp was that foods don't dry out and that foods don't transfer odors.

(Deposition of Wallace C. Johnson.)

Q. And that was because of the moist-cold compartment? [1078]

A. Well, that was because of two things, moist-cold compartment, and also the sterilamp. The sterilamp had to do directly with the transfer of odors.

Q. It had nothing to do with the humidity?

A. It had nothing to do with the humidity, but you would have transfer of odors if you didn't have the sterilamp, regardless of the humidity.

Q. Mr. Johnson, did you continue to use that same pitch throughout with respect to the Dual-Temp? A. Pretty near, yes."

The Court: Don't you want to read on 227, -8, or -9?

Mr. Cuninghame: It does rather summarize the ads but I didn't want to——

The Court: Go ahead. You select the portions.

Mr. Cuninghame: Well, I would be glad to read it.

The Court: I don't care if you read it or not.

Mr. Byron: It doesn't seem to me to make much difference. If you are in business to sell things you have got to advertise. That's about all there is to that.

Mr. Cuninghame: Well, I think it might be some help to the jury and isn't long. I guess we will continue on 226 at the bottom.

"Q. As indicated, I think, by certain ads that I won't bother you about, that have been furnished me, unless you want to [1079] see them.

(Deposition of Wallace C. Johnson.)

A. No. That is about right.

Q. The ads I refer to are those attached to the Admiral interrogatories.

Now, what other sales helps, beside newspaper and magazine advertising, did you use to work up this refrigeration business?

A. We had sales meetings. We held dealer meetings across the nation. We used radio at that time to start with, and then as we progressed we went into TV.

Q. Did you get out any printed booklets such as these, exemplified by these that I show you, and I hand you Admiral interrogatory exhibits B through F, I believe."

Mr. Cuningham: Those have been previously identified.

The Crier: "A. Yes, these are service manuals.

Q. Those were sent to the distributors?

A. Sent to the distributor's service department and they in turn more than likely mailed some to the servicing companies that were handling the Dual-Temp.

Q. What was your system of distribution? Through jobbers and dealers?

A. Yes, the first step being through distributors, and they in turn sold to dealers.

Q. This little booklet characterizes the present-day organization—and by the way, I found a date in here of June 30, [1080] 1953, on page 1, so that it was probably printed since that time—characterizes

(Deposition of Wallace C. Johnson.)

the present organization as having 88 distributors and 32,000 retail dealers. Is that about the status at the present time? A. What was that 88?

Q. 88 distributors.

A. That is about right, 86. I think that is a little high on the dealers.

Q. Well, that is a nationwide organization?

A. That is a nationwide organization. That includes people that have bought one refrigerator or one TV or one radio.

Q. Probably a little too much, to be conservative, is that it? A. Yes.

Q. Did you furnish these distributors and dealers with any other printed sales helps than these service manuals?

A. I imagine so. I couldn't tell you exactly.

Q. I don't want to be too——

A. No, I imagine we had other material.

Q. Can you give me some generally used other item that you think of now?

A. There were specification sheets, your line folders.

Q. Well, I show you a 1956 publication marked Siragusa Exhibit 7."

Mr. Byron: Now, your Honor, that's far beyond the [1081] day when this patent expired, 1953, so it's immaterial.

Mr. Cuningham: I withdraw it.

Jumping to page 232, middle of the page:

"Q. But did you have frosting in the moist-cold job?

(Deposition of Wallace C. Johnson.)

A. No, we did not have frosting with the previous job, but actually there isn't too much frosting on this job."

Mr. Byron: I think that is referring to an experimental job and it started long after 1953; as a matter of fact, in 1955.

The Court: Is that right, Mr. Cuninghame?

Mr. Cuninghame: I didn't so understand it when I read it. There is a previous job and I marked it when I read it. Well——

The Court: What is the exhibit?

Mr. Cuninghame: That was a later one excluded earlier this morning, your Honor.

The Court: Well, isn't that what you are talking about?

Mr. Cuninghame: No. This is the previous one, as I understood it.

The Court: No. 7?

Mr. Cuninghame: No, previous refrigerator, previous job.

The Court: Oh.

Mr. Byron: Now, you are speaking about your Exhibit 6, whatever that is. 6 and 7. Now, what is 6? [1082]

Mr. Cuninghame: That is also excluded, but that is from——

The Court: Well, it's in already. Let's go ahead.

Mr. Cuninghame: I would like to read from the middle—to the middle of page 234.

Mr. Byron: Well, that gets into the booklet. What he is trying to do here is to read pieces of that little booklet that has been excluded, read them piece by piece into the record. That's been——

Mr. Cuninghame: No, your Honor.

The Court: What page?

Mr. Cuninghame: Page 234, sir, and over to page 235 is really what we get to. I will exclude that booklet part. It's just the beginning is all.

The Court: You mean the question on 235?

Mr. Cuninghame: I would like to read, I think, the whole page. I think I ought to start, it seems to me, on 234, in the middle, and read through 235.

The Court: Well, you don't have to do it. These jurors know that the Admiral Company is a big corporation, and that's all you are trying to bring out.

Mr. Cuninghame: All right, sir. If your Honor rules against it, of course—may I have the figures on 235?

The Court: No.

Mr. Cuninghame: The percentage figures, middle of the [1083] page, 5 per cent of the total billing?

The Court: For the advertising costs?

Mr. Cuninghame: Yes, normal advertising. Five per cent of total billing.

The Court: Well, what possible relevancy does the fact that Admiral Company spends 5 per cent of their total billing on advertising have on any issue in this case, Mr. Cuninghame?

Mr. Cuninghame: Your Honor, it seems to me it

has a relevancy on the—fixing of a reasonable royalty.

The Court: Do you think there is a correlation between payment of royalties and advertising costs?

Mr. Cuninghame: Some. I agree it could be remote, but I think some.

The Court: Well, I can't see any, and so the objection to this line of examination is sustained.

Mr. Cuninghame: Your Honor has sustained it?

The Court: Yes. I think if there is anything here as to what they get for the machine, I think that's important and you may bring it out, because the only testimony that has come out is the retail price. But Mr. Parker says that it was a reasonable royalty based upon what the company received and not the retail price, so if you want to bring out what the wholesale or manufacturer's price is, you may.

Mr. Cuninghame: Well, your Honor——

The Court: The price from the manufacturer to the [1084] wholesaler, that you can bring out.

Mr. Cuninghame: Your Honor, that has been in the case in the first day in the answers to the interrogatories.

The Court: Oh. All right. I know that, of course, would be all right. I didn't know that that was in evidence.

Mr. Cuninghame: One thing that must go in here—I think I spotted it here—I haven't been able to find it. Your Honor, I seem to have lost it.

The Court: All right. You can bring it up a little later.

Mr. Cuningham: We will have to skip this thing. I have not been able to read the thing straight through and I cannot put my finger on the statement. Of course, it's a bit difficult because there is so much repetition in these things to skip.

The Court: You can close this deposition and come back to it later.

Mr. Cuningham: Well, sir, the only other one is the Eger one, and I am pretty sure that the point that I had in mind was in the Johnson deposition. Maybe Mr. Byron would cure my lapse and read it.

Mr. Byron: I don't know what your lapse is, but I'd be glad to help you if I knew, but I don't know what your lapse is.

Mr. Cuningham: Do you have anything you want to read in Johnson? [1085]

Mr. Byron: Not a bit.

Mr. Cuningham: I remember what it was, but I can't find it. Well, sir, I would like to——

The Court: You will reserve the right to complete Johnson?

Mr. Cuningham: All right. Thank you. I guess we will go over to the last one—or not the last one. I have no desire to read Sheridan. He merely identifies the booklet. But Eger, I think, is a short one, and that is on page 243.

The Court: Go ahead. [1086]

(Thereupon the deposition of Edmond I. Eger, a witness produced in behalf of Plaintiff, was read into the record, with Mr. Cuningham reading the questions and the Court Crier reading the answers, as follows:)

DEPOSITION OF EDMOND I. EGER

“Q. Will you state your name, Mr. Eger?

A. Edmond Eger.

Q. Where do you live?

A. Flossmoor, Illinois.

Q. What is your business?

A. I am advertising director for Admiral Corporation.

Q. How long have you held that position?

A. Since March 1st of last year.

Q. What was your business prior to March 1st of last year?

A. I was in the advertising agency business.

Q. In connection with Admiral? A. Yes.

Q. What agency?

A. Russell M. Seeds Company, and prior to that, my own agency, Cruttenden & Eger.

Q. Can you give me a rough idea of the period of time you have covered now? Give me the dates.

A. Well, Cruttenden & Eger, from about 1922 to about 1951. Then Russell Seeds, I have to figure it out. If it is a year prior to March 1st of last year, from 1953 to 1954. [1087]

Q. There is a gap there, Mr. Eger?

A. No, there shouldn't be, because I went right from Cruttenden to Russell M. Seeds. I was with Seeds for about a year.

Q. You are probably a little early when you left Cruttenden & Eger. You said 1951. You tell me. I don't know.

(Deposition of Edmond I. Eger.)

A. I would have to check it up if you want the exact date.

Q. There was no gap in your connection?

A. No gap, no. [1088]

Q. Did you have any experience in the electric appliance field in either of these two companies, advertising agencies?

A. Yes.

Q. What, briefly?

A. Well, we handled the Admiral account from, oh, about 1936 on.

Q. In both Cruttenden & Eger and Russell Seeds?

A. That is correct.

Q. That is, were they successive handler of the Admiral account?

A. Yes. When I went over to Russell Seeds I brought the Admiral account with me."

Mr. Byron: I frankly do not see——

Mr. Cuningham: I want to skip the rest of that page. I think we have got Siragusa Exhibit 1 on Page 246. We will skip that and go to Page 249, bottom of the page:

"A. Our budget for this year——"

Mr. Cuningham: Oh, I am reading your answer, I guess.

The Court: Well, it seems to me that that is nothing material. I have read down to Page 253, and I cannot find one question or one answer that has any relevancy to this case.

Mr. Cuningham: All right, sir; let us start on Page [1089] 253 at the top:

(Deposition of Edmond I. Eger.)

“Q. Well, now, if you can throw your mind back to the first contact with Admiral’s appliance Division, which was roughly in 1945 and ended probably in 1948, can you recall what your principal pitch was on the Dual-Temp in the advertising? By that I mean, did you advertise the moist-cold feature principally or were there other features that you stressed equally?

A. Well, there were other features that we advertised, but the moist-cold compartment was the main feature that we stressed.

Q. And that was true throughout that two- or three-year period, was it not?

A. I believe so, yes.

Q. I am willing to make that answer subject to correction if we get the advertising books down here and look through them.

A. Well, I remember we had a lot of ads that had a heading on them, ‘No Defrosting.’

Q. That was a feature, too?

A. That was a feature, and that was the so-called principal feature. I also remember that we, if you want to call it, sub-featured the freezer compartment, the sterilamp.

Q. I am familiar with enough of your advertising that I [1090] think I know that, and we have samples here. I would like for you to glance quickly through Admiral interrogatory Exhibits I through N and tell me if you recognize those and if they refresh your recollection as to these features, or if you want to amend your testimony.

(Deposition of Edmond I. Eger.)

A. No, I think my memory was very good.

Q. I do, too, sir. Is there anything you would like to add as the result of your looking through that?

A. No. This merely confirms my observation here that all of these ads were prepared by Tatum-Laird. I had no responsibility for those.

This one (indicating) I remember because of the words 'No Defrosting.'

Q. Referring by 'this one' to Interrogatory Exhibit I.

You would accept that as a representative group of the advertising, as you know it, for the Dual-Temp refrigerator?

A. For the Dual-Temp refrigerator, yes."

Mr. Cuningham: Does your Honor's ruling extend to the next page?

The Court: Yes.

Mr. Cuningham: I believe that concludes Eger, and I did not intend to put anything in on Mr. Sheridan. I think I could find that if I took time. [1091]

The Court: What about Bailey and Rengel? Do you want now to read Bailey and Rengel?

Mr. Cuningham: No, sir.

The Court: Then you are waiving Bailey and Rengel except insofar as it may become relevant in your rebuttal; is that right?

Mr. Cuningham: I think so, sir, or possibly if there is any occasion to use it on their case for

impeachment purposes or cross-examination. I understood that we could use this type of deposition for any purpose in the case.

The Court: Are Bailey and Rengel in the courtroom?

Mr. Cuningham: Well, perhaps we ought to identify them. I forgot.

Mr. Byron: I can tell you exactly who they are. Bailey is a man in the patent department of Admiral who at one time prepared patent office drawings and later developed into making preliminary drafts of patent applications and does some amendment work under a superior.

The Court: I do not care about that. Are they here in the courtroom?

Mr. Byron: No, no; just routine.

The Court: Is Rengel in the courtroom?

Mr. Byron: Oh, no.

Mr. Cuningham: They were both patent people, patent lawyers. [1092]

Mr. Byron: There is nothing in there that is pertinent to this case.

The Court: Well, the deposition of a person cannot be used to impeach anyone else except the person who gave the deposition, Mr. Cuningham.

Mr. Cuningham: Your Honor, if the deposition established facts contrary to what the testimony is——

The Court: I do not want to argue with you on that now. You are not going to read either Bailey or Rengel?

Mr. Cuningham: Not now, sir.

The Court: Very well. Do you have any other testimony at this time?

Mr. Cuningham: No, but we have some exhibits to offer. The first ones that I see are ones that Mr. Kolisch and Mr. Maguire, I believe, discussed. Unfortunately, Mr. Maguire is trying a case and cannot be here, and he has indicated the ones that he understands Mr. Kolisch agreed to, and I believe one or two others that Mr. Kolisch did not agree to that he wanted to offer. Now, I can leaf through those.

The Court: First, I want you to find the testimony that you think is relevant on Johnson. There is no use of keeping a jury here while you identify documents for an hour or two, and therefore what we are going to do is to take whatever testimony you have, and then we will excuse the jury until next week unless you want to go on today, [1093] Mr. Byron.

Mr. Byron: I would just like to mention this, your Honor, that Mr. Cuningham worked on us a long, long time to get in a Steele deposition, and finally we said that we would agree to stipulate that if he were called as a witness he would testify as follows: Question and answer form.

Now, we have done that. Mr. Cuningham wanted him in badly. Now we want him in, too.

Mr. Cuningham: No, your Honor, my understanding and my recollection has been greatly refreshed by reading the transcript of the pretrial proceedings for November 7th, and I am unwilling to take the risk, and I do not think it is worthwhile,

of any error in this case by offering the deposition of the deceased Mr. Steele. My attitude has changed completely since our record has been made. I do not think we need his testimony on dates, so I decline to offer it, and I object to it being offered by the other side.

Mr. Ramsey: We have a stipulation on that.

Mr. Cuningham: We had no such stipulation that I was aware of. I was offered a bargain and did not take it.

Mr. Byron: Mr. Cuningham begged for it——

Mr. Cuningham: That is true; I thought if I were to use it, but I have declined the stipulation.

The Court: Mr. Cuningham, you called my attention to [1094] that, that there were no other offers connected with the offer to introduce Steele, and I took issue with you at the time. Then it developed that downstairs, outside my presence, a stipulation was entered into.

Mr. Cuningham: I do not deny that, sir.

The Court: And then Mr. Ramsey called up, and he said that your recollection was correct and that the testimony of Steele could be admitted regardless of any other deposition.

Mr. Cuningham: I do not deny that, sir, but the point I am trying to make—I may not be too clear about it—is that I did not accept a thing, and I would not accept it until I had offered it. I do not need it now, and I do not think we want it in the record. That was a unilateral thing, and it was all tied up with the depositions of Anderson and

Bonning. I do not want any of them now. I think our record is complete.

The Court: Mr. Byron, in the absence of a written stipulation, which worked both ways, the objection of Mr. Cunningham will be sustained because a stipulation apparently was made outside my presence, and I do not know the full reach of it. Mr. Cunningham says that it only permitted him to introduce it, and I am willing to accept that.

Now, Mr. Cunningham, will you take a look and see which part of Johnson that you want. [1095]

Mr. Cunningham: I will, sir.

The Court: And then we shall excuse the jury.

Mr. Cunningham: I think I have it, sir.

The Court: What page?

Mr. Cunningham: It begins at the bottom of Page 237 and runs over a little beyond the middle of Page 238. I think it is probably not covered by your ruling. The pertinency, your Honor, is the connection with the hypothetical question.

The Court: Down to the bottom of the page?

Mr. Cunningham: About the middle, a little below the middle of 238.

The Court: Go ahead.

(Thereupon excerpts were read from the deposition of Wallace Johnson as follows, with Mr. Cunningham putting the questions and the Court Crier the answers.)

DEPOSITION OF WALLACE JOHNSON

“Q. Have you ever, and by you I mean Admiral Corporation, ever used the pitch to your dealers and distributors that the Dual-Temp is a high-profit item, higher than the conventional type for them?

A. That would be true because of the higher list prices. There are more unit dollars involved.

Q. They make more unit profit? [1096]

A. Well, sometimes they make more unit profit, but sometimes they give it away in trade-ins.

Q. If they didn't give it away, they should make more unit profit, is that right?

A. That is right.”

Mr. Cuningham: That is all, if your Honor please, subject, of course, to these offers and, as I understand, to our session making the record on Friday.

The Court: The plaintiff rests except for the introduction of exhibits and the offer of proof that plaintiff desires to make.

Mr. Cuningham: May I ask one question about that? I would prefer, I think, to say that we rest after we make our offer of proof because it is possible that there might be some hangover from that. That is my only reservation, your Honor.

The Court: The thing I want to know is whether there is any useful purpose keeping the jury here this afternoon.

Mr. Cuningham: I agree, your Honor, wholeheartedly, and we have these very few exhibits. They would not probably have much chance to read them anyhow.

(Discussion off the record.)

The Court: Ladies and gentlemen of the jury, as you probably know, we are shy courtrooms in this building. We [1097] have four judges and two an a half courtrooms, and so I am going to have to give up this courtroom for a little while on Monday morning. In order to make it unnecessary for you to stay around here when some other judge is hearing a matter, I am going to excuse you until 11:00 o'clock on Monday morning, and I think that will be sufficient time for Judge McColloch to dispose of those matters.

You have only heard one part of the case, the plaintiff's case, and you have not read some of the exhibits that plaintiff will offer, and likewise, as it has become quite apparent to you by now, there is some evidence which I regard as immaterial in this case, which I shall summarize for you in my instructions; therefore, I want to admonish you once again before this long vacation, please do not make up your mind on this case, and you have quite a bit of time between now and next Monday, so do not talk about it with anyone else. In the arguments of counsel the salient features of this evidence will be reviewed for you. Have a happy Thanksgiving, and you are now excused until next Monday morning at 11:00 o'clock.

(Whereupon the jury retired from the courtroom at 2:55 o'clock p.m.) [1098]

(The following proceedings were had out of the presence of the jury:)

The Court: All right. Now, go ahead, Mr. Cunningham. Mr. Kolisch, why don't you stand by him and see if we can't get the record complete?

Mr. Cunningham: Well, maybe we can speed things up a little bit because I have the original exhibits here that I will reach after we finish with Kobernuss, and if you could let somebody else besides Mr. Kolisch examine them——

The Court: No. Let one man do it. Do both sides waive any requirement that the exhibits be introduced in the presence of the jury?

Mr. Byron: I will waive that.

Mr. Ramsey: Yes.

Mr. Cunningham: Yes.

The Court: Both sides have waived?

Mr. Cunningham: Yes, your Honor.

(Discussion between counsel.)

The Court: I think that rather than try to complete the record now on the exhibits that it might be well for you men to get together and then offer them on Friday morning at 10:00 o'clock.

Mr. Cunningham: All right, sir.

The Court: It is apparent now that you are not fully prepared. [1099]

Mr. Cunningham: My difficulty is that Mr. Maguire did it and I am trying to pinch-hit for him and I don't really know, I guess.

The Court: All right. You can complete the record on Friday, at which time I will hear your motions at the same time.

Mr. Cunningham: Thank you. Well, we might

save time if we look at these. We are going to offer them Friday.

The Court: All right. You can use the courtroom.

Recess until Friday at 10:00 o'clock.

(Whereupon, at 3:00 o'clock p.m. an adjournment was taken until Friday, November 25, 1955, at 10:00 o'clock a.m.) [1100]

Friday, November 25, 1955, 10:00 A.M.

the trial herein was resumed, pursuant to adjournment, and further proceedings were had as follows:

The Court: As I understood our position last Wednesday, we were to come back today in order to permit you, Mr. Cuningham, to make a record.

Mr. Cuningham: Yes, sir: and first, you know, to complete our offer of exhibits as to which we agreed.

The Court: Have you and Mr. Kolisch gotten together on that?

Mr. Cuningham: With about three exceptions, your Honor, we have. Suppose I offer them now. There is no other business. The ones I will offer first there is no dispute about.

The Court: Just give the numbers.

Mr. Cuningham: I wish Mr. Kolisch would keep a weather-eye on me. I do not want to slip on this.

(Discussion off the record.)

Mr. Cuningham: I offer in evidence Plaintiff's Exhibit 6-XX, Plaintiff's Exhibit 6-UU, Plaintiff's

Exhibit 6-Y, Plaintiff's Exhibit 6-X, Plaintiff's Exhibit 6-W, Plaintiff's Exhibit 6-T, Plaintiff's Exhibit 6-U, Plaintiff's Exhibit 6-V.

The Court: Are those the only exhibits that you are offering on which there is no dispute? [1101]

Mr. Cuningham: No, sir.

(Discussion off the record.)

Mr. Cuningham: Your Honor, we have agreed upon portions of Exhibits 6-Z, 6-AA and 6-DD. Those are pages taken from those exhibits.

The Court: Are there any objections to other portions of the documents?

Mr. Cuningham: We have agreed upon eliminating the other portions, your Honor.

The Court: All right. Offer them and then submit them.

Mr. Cuningham: May I offer these simply as pages from those three exhibits?

The Court: Do you have now copies of the pages which you are to substitute in lieu of the original exhibit?

Mr. Cuningham: My own feeling is, your Honor, it would be clearer if we identified the pages. They were not marked, you see, page by page. These were bound in one group and given an exhibit number.

The Court: Go ahead.

Mr. Cuningham: I am sorry, I do not know how to do it, to be clear about it.

The Court: May I suggest that you now go to the controversial matter and come back—you do

not need me for the exhibits that will be admitted without controversy. [1102]

Mr. Cuninghame: Your Honor, we do need you because I am postponing just a minute until I get the proof in those exhibits as to which there is objection and upon which your Honor will pass upon.

The Court: That is precisely what I said. Let us go to those.

Mr. Cuninghame: There is just one more. May I take a moment?

The Court: All right.

Mr. Cuninghame: Your Honor, from Exhibit 6-DD, and there is no objection to any of these, we offer six pages which are identifiable, I believe, by simply the last two words that are on each, and I quote: "Essential Features," "Standard Cycle," "Proven Mechanism," "Five Working Parts," "Dependable Power Plant," and "Adjustable Controls."

And from the same exhibit, if your Honor please, we offer the following similarly identifiable pages, being six in number, and I quote: "Celery and Olives," "Fresh Foods," "Cooked Foods," "Hydrator Pans," "Air Conditioning," "Equipment and Craftsmanship"—those being also from Exhibit 6-DD.

From 6-AA we offer five pages identifiable by the little corner printing in the upper right-hand corner of each page: "Food Preservation by Ice Refrigeration," "Food Preservation by Dry Cold

Mechanical Refrigeration," [1103] "Efficiency of Dry Cold Refrigeration Process," "The Answer to Proper Food Refrigeration Is Air Conditioning," and "Here Is Evidence of Difference in Results."

Also, if your Honor please, we offer from Plaintiff's Exhibit 6-C Pages 2359 through 2372, inclusive, except the opening paragraph on Page 2359 which is X'd out, being the license to the Standard Refrigerator Corporation, and Plaintiff's Exhibit 209 in the Stewart-Warner case.

We also offer again from Plaintiff's Exhibit 6-C Pages 2373 through 2384, being Plaintiff's Exhibit 210 in the Stewart-Warner case, that being in printed form, your Honor. We have here the type-written form of, I believe, the same license which is to Apex Electrical Manufacturing Company and has heretofore been marked Exhibit 6-AAA.

We offer, and also identify herein as Exhibit 6-BBB-1, -2 and -3, three letters with return receipts as to which there is no dispute. Now, if your Honor please——

Mr. Kolisch: Just a moment, Mr. Cuningham. With respect to the portions of the Exhibit 6-C which Mr. Cuningham has submitted, I want to make clear that those are portions from the Stewart-Warner record which Mr. Cuningham has cut out. They relate to certain license agreements to which we have no objection; however, we are not admitting the admissibility of 6-C generally. This is just the license agreements which you have cut out of 6-C. [1104]

Mr. Cuningham: That is my understanding. You are entirely correct.

The Court: All right.

Mr. Cuningham: I think there is—I omitted one paper to which there is no objection.

Mr. Kolisch: No objection.

Mr. Cuningham: Also, we offer 6-C. Now, if your Honor please, I offer 6-YY and 20 as to which there is objection. I offer it without further explanation.

The Court: What are they?

Mr. Cuningham: Do you want me to say, sir?

The Court: Yes.

Mr. Cuningham: The first one, 6-YY, is self-explanatory. It is headed "Potter Refrigerator Corporation Sales of Refrigerators Embodying the Potter-Bronaugh Patent No. 2,056,165 and Potter Patent 2,258,959," a three-page exhibit which shows the model numbers, which distinguishes the type of refrigerator and number sold and the amounts received. It is offered and admitted; that is, the authenticity is admitted in this case already. It is offered as proof of sales by the plaintiff's direct predecessor without any licensee or any mention here of direct sales, and I see no reason why it should not be admitted.

Mr. Kolisch: The objection to that, your Honor, is that this bears, it has to do with Bronaugh-Potter Patent [1105] 2,056,165 which is the original, and another patent, 2,258,959. These are sales. We do not know what has to do with the original Potter

patent and this other Potter patent. This is all intermingled.

The Court: There were two patents?

Mr. Kolisch: There were two patents.

The Court: In the Stewart-Warner case actually there were three patents.

Mr. Kolisch: There were three.

The Court: Now, do I understand that when the patents were surrendered there was only one patent surrendered for this reissue patent?

Mr. Kolisch: Yes, the 2,056,165 which reissued.

Mr. Cuninghame: If your Honor please, as I said in my description, these are identifiable and distinguishable, the patents that are involved in each type of refrigerator reported on that list, and it is covered by the Potter deposition already in record.

The Court: I am going to admit it.

Mr. Cuninghame: If your Honor please, I offer Exhibit 20. That is a prospectus of the Admiral Corporation. I quote from Page 19.

The Court: A prospectus?

Mr. Cuninghame: Yes.

“Refrigeration Patent Corporation and [1106] Potter Refrigerator Corporation, holders of certain patents referring to electric refrigerators known as the ‘Potter patents,’ have filed suits in the District Court of the United States for the Northern District of Illinois against Stewart-Warner Corporation, claiming that equipment manufactured and sold by said Corporation, the patents, patent applications, licenses, tools, jigs and dies relating

to which the Company has contracted to acquire from said Corporation, infringe said Potter patents. The Company is not a party to these suits, which are now on trial. In the contract between the Company and Stewart-Warner Corporation, the latter has agreed to indemnify the Company against any loss from infringement of the Potter patents prior to October 24, 1944. In the opinion of the Company the outcome of the Potter litigation should not materially and adversely affect its prospective business in the electric refrigerator field."

The date of the prospectus is November 15, 1944. The contracts, as your Honor will recall, with the option are already in evidence in this case, and I see no reason why this should not be admitted. [1107]

The Court: The offer will be rejected. Objection sustained.

(The offered exhibit and previously referred to was thereupon rejected.) [1108]

The Court: Now, I might say that with reference to the statement I made to the jury which I will repeat in my instructions, to the effect that nothing that transpired in the Stewart-Warner case affects any issue in this case except the fact that the Court of Appeals held the patent invalid, and that was the basis for the issuance of the reissue patent—I make that statement not only because of the testimony introduced in the trial, but also because of the representations that were made to me in connection with the pretrial, at which both parties submitted argument and evidence and ex-

hibits. And looking toward the admissibility of certain testimony from the Stewart-Warner case, I make this statement now in order to complete the record.

Mr. Cuningham: I would like to ask Mr. Kolisch who he represents?

Mr. Kolisch: I think that's a question of record, your Honor.

Mr. Cuningham: You represent both Admiral and Amana?

Mr. Kolisch: Do you want me to answer this interrogation?

The Court: This is kind of a strange request when here he is appearing on behalf of Admiral and Amana. I don't think that there is any dispute about that. He is a partner of Elmer Ramsey and Elmer Ramsey has come in and said that he represents both parties.

Mr. Cuningham: I know that, sir. You will recall [1109] that Mr. Kolisch wasn't with us, unfortunately, at the beginning of the lawsuit, and I just wanted to be sure. Perhaps he would have no serious objection to clearing up this matter now on the record. I want to be sure what parties or party he represents and I want to know what parties or party he feels responsible to, I want to know what party or parties he gets authority from to act in the case, and I want to know by which party or parties he was selected to appear in the case.

The Court: Well, what difference would all that make, Mr. Cuningham?

Mr. Cuningham: I think it will be apparent, your Honor, after my questions are asked.

The Court: Well, you asked the questions. When a man appears in this court on behalf of certain clients, he has authority to bind them.

Mr. Cuningham: And that means that all these questions are answered in the affirmative, that he is responsible to both parties?

The Court: That's right.

Mr. Cuningham: I would also like to know who he is paid by, Admiral or Amana.

The Court: Well, I am not going to have him answer this question. By what right do you ask these questions, Mr. Cuningham? [1110]

Mr. Cuningham: I ask the amount of payment. I want, your Honor, simply to know who represents who.

The Court: Well, what is the purpose of the inquiry?

Mr. Cuningham: It will become apparent, your Honor.

The Court: Well, answer the question.

Mr. Cuningham: The purpose is, your Honor, to show that the Admiral corporation has—well, perhaps I can do it extemporaneously a little better.

Your Honor will recall that from the very beginning when we filed the complaint we prayed for treble damages because of the wilful character and deliberate character of the infringement of the Admiral Corporation. That was repeated in the supplemental and amended complaint and made with greater specificity during the pretrial confer-

ence at one of the later ones. Therefore, if your Honor please, under that issue, which I think is an issue for the Court—and I am taking this opportunity because the jury is not here—under that issue this ceases to be just the normal run of the mill patent suit.

I am not sure that I have made that point clear. I don't think I have really had an opportunity to because I didn't appreciate the necessity for doing so until your Honor made some rulings in the trial.

Now, of course, I know, I think, as well as anyone else, that intent is ordinarily not a part of the skin and [1111] bone patent suit. That, however, is not true here, and I think that what we have already in the record goes quite far and maybe it's complete enough with respect to the malicious, wilful, and deliberate infringement by Admiral not only its own infringement but under the new statute, and aiding and abetting of others, which is now an active infringement under the statute, the contributory infringement; also, if your Honor please, under the theory of joint tort feasons in connection with, at least, the defendants that are before your Honor, if not others.

Finally, if your Honor please—and I do not propose to ask at this time that your Honor permit me to amend to the complaint to conform to the pleadings—but my friends on the other side have had notice of all this, I don't think your Honor has. They had since April when we took the Chicago depositions shown in the record.

I would like, I think, for your Honor to realize

that there is not only these two joint tort feasorships and contributory infringement doctrine but also the further now well recognized tort of malicious interference with the business of another.

Now, of course, the others in this case is plaintiff and plaintiff's predecessor in title. The case of Green against the Munson Line, which I don't have handy here, but which is a New York case, but which has been written up [1112] in the A.L. Journal and other periodicals which I think are available here, is most interesting in exposition of that theory—not to old theory, but pretty well established now—of the action ability of the notion of interference with the business of another.

The Court: Is all this related to whether Mr. Kolisch is getting paid by the Admiral and Amana Corporation, or whether——

Mr. Cuningham: That isn't quite the way I stated it.

The Court: Well, let's stop the conversation. Mr. Kolisch, are you getting paid by Amana and Admiral both, or don't you know?

Mr. Kolisch: I don't know, to tell you the truth, your Honor. I was retained in this case through Mr. Ramsey.

The Court: How about that, Mr. Ramsey?

Mr. Ramsey: As a matter of fact, I have been paying Pierre to help me.

Mr. Cuningham: Well, then, I had better ask Mr. Ramsey, I guess.

The Court: Are you getting paid by both Admiral and Amana?

Mr. Ramsey: That's correct.

Mr. Cuningham: To whom are you responsible, both of them?

Mr. Ramsey: Both of them, I guess. [1113]

Mr. Cuningham: Who selected your office?

Mr. Ramsey: I don't know.

Mr. Cuningham: Well, how did you come to get the case?

Mr. Ramsey: Why, he asked me to.

Mr. Cuningham: Who?

Mr. Ramsey: I really don't know which one asked me. I think originally Lou Johnson did. They were the ones in here and I have represented him, I know that, prior, and frankly——

Mr. Cuningham: Well, if your Honor please, this business of defending others—and also in connection with what will be my first offer, simply because it was last rejected—a little booklet, “The Admiral Story” is quite enlightening.

The Court: Well, no speeches, Mr. Cuningham. I am sick of those. You just tell me your offers and I will pass upon them.

Mr. Cuningham: Well, I would like to have an order, if your Honor please, that I get this information—not the amount of the bills or anything, but I would like to get full information from Messrs. Ramsey and Kolisch as to how they came to be in the case and how they divide their responsibilities, if they do. I think that's a very important part of these three causes of action.

The Court: Well, I don't. I think you have got enough information and I am not going to give you

any more orders. [1114] I think that they have fully and frankly stated their position.

Now, Mr. Ramsey has stated that he is responsible to both of them, he doesn't recall who gave him the case. I don't think that that is important anyway.

Mr. Cuningham: Now, of course, it's only one part, your Honor, because a great deal of the evidence, as I recall it—and it will become quite specific, I think, as we go through it—bears upon this matter which, as I said, is for the Court.

The Court: Well, then, we will take it up after the end of this case if it becomes necessary.

Mr. Cuningham: Well, if your Honor please, we want to make our record now, make our offers of proof, and in the event—it's my understanding that this was to be a pretty much final thing and we would close our case on Monday subject to this and whatever developed out of it.

The Court: Well, I segregated that issue as to the question of treble damages. That's not in the case. That's not the question that is going before the jury.

Mr. Cuningham: As I said, I admit that is a question for the Court, but how about questions of contributory and joint infringement all alleged since the beginning, and how about the wilfulness and so on as it might affect the findings of the jury?

The Court: Well, is there an issue of wilfulness before [1115] the jury?

Mr. Cuningham: Well, there is certainly an issue

of infringement. I suppose it might be characterized an issue of wilful infringement.

Mr. Kolisch: It makes no difference as far as the jury is concerned. It's the business of the Court as to treble damages, and I think Mr. Cuninghame is forgetting that first he has got to prove he has got a valid patent infringed and he has done everything to avoid that. I think we ought to keep to the issues.

The Court: Make your offer. Mr. Cuninghame, I am not going to put that book before the jury and I have seen what you have tried to do in this case and I don't like it. You've read the names of people who have foreign names in order to prejudice the jury against a person because he has a foreign name, and I don't like that stuff, and that's not the way I am going to conduct a case, and that's not the American way of doing it, and I have seen you do it and you are not going to do it any more.

I am going to call it to the attention of the jury, what you have done, and I think it's just disgraceful. Siragusa and these other names, the only thing you asked them, what their position was and you are going to tie it up, and after the names—these four names came out—you dropped it.

Mr. Cuninghame: Well, if your Honor please, I am very [1116] sorry if you feel that way. I certainly had no such intention and I didn't mean to cast any aspersions on his name. That is his name.

The Court: That's right. And those and the other people had Greek names too, and in this court

Greek people have a right the same as everybody else has rights.

Mr. Cuningham: Evans T. Morton and those, I——

The Court: I have seen other names too.

Mr. Cuningham: Well, all I can say is I am very sorry your Honor feels that way. I have certainly not tried to do anything with those names.

Well, your Honor feels satisfied that you don't want the particular point of this booklet, Siragusa Exhibit 1, which was marked, I guess, for this case as Exhibit 3-Z, pointed out to your Honor at this time just briefly?

The Court: No. I am satisfied that the exhibit is not admissible in evidence.

Mr. Cuningham: Well, without quoting from it, your Honor, may I say this: It makes the statement in a certain form—it's been repeated in many other exhibits—that—and it's a statement by Admiral that Stewart-Warner was first with a moist cold type of refrigerator. Now, it's perfectly obvious when they bought this business from Stewart-Warner that they knew all about the suit, they bought the business. [1117]

The Court: Mr. Cuningham, I have already told you I am not going to admit it. You have made your offer and the offer is rejected.

Mr. Cuningham: Well, just for that reason, sir, as one example of how they falsely and deliberately claimed to be first when they weren't——

The next exhibit I offer for this purpose for the record is Exhibit 3-II and it's related Exhibit

3-JJJ. 3-II is a picture of the present type of modern refrigerator that the plaintiff is interested in and -JJJ is a copy of the Potter design Patent 155,033 under which plaintiff expects and hopes to get into the business.

The Court: I have already passed upon those two exhibits, I believe, and held them to be inadmissible and the offer is rejected.

Mr. Cuninghame: Yes, your Honor. That's true of all these, you see. I am making this record.

The Court: Well, how many times are you going to have to make a record on exhibits that I have already rejected?

Mr. Cuninghame: Well, perhaps your Honor is right. Maybe I misunderstood this proceeding. I thought that we had to have it complete in the event of any interlocutory action in the Court of Appeals or other things. I didn't know.

The Court: Well, I think that once I reject an exhibit [1118] you have preserved your record. You can, if I am in error in that and you lose the case, that's the basis for appeal.

Mr. Cuninghame: Yes, your Honor. I thought we ought to do it now before the trial closes in the event there is any need of a further action.

Now, I offer Plaintiff's Exhibit 6-B. It's from Plaintiff's Exhibit 6-B, page 2534 which, your Honor, is merely a diagrammatical showing of the Stewart-Warner device. I would like to have that to show how much more close is the defendants' device in this case. That's the purpose of it.

The Court: Well, I don't think I have to rule

on that again. I have already ruled that it's inadmissible.

Mr. Cunningham: Your Honor is ruling now, sir, that's why. Now, this is the last two, I guess. For this purpose I offer Exhibit 3-HHH, and I shall not characterize it because I have no idea that your Honor will admit it. It shows the Stewart-Warner records. I might say I did have hope that you might reconsider if you saw what was in some of these things.

I also offer——

Mr. Kolisch: I would like to point out for the record that the Court has seen these. These have all been submitted before, Mr. Cuningham.

Mr. Cuningham: I think you are right, Mr. Kolisch. [1119]

I offer Exhibits 3-FFF-1, -2, -3, -4, as evidence of the impact of the Potter refrigerator on the market.

The Court: All right. All the offers are rejected.

Mr. Cuningham: Now, sir, I have also to offer and make, I think for the first time, of record here excluded portions of the depositions of Potter, Bonning, Quinn. There may be—in fact, I think there is some Siragusa, I am not certain about Johnson. I think we got most of that in. Those can be identified in your Honor's absence, if you wish.

The Court: Yes, that's perfectly all right. You can read them into the record.

Mr. Cuningham: Yes.

The Court: But I am satisfied that the portions excluded were either irrelevant or objectionable for

one of a variety of reasons which I mentioned at the time of the exclusion, so I don't see any useful purpose of my remaining here. I thought that you had intended to bring down a live witness from Seattle to make a record on.

Mr. Cuninghame: Oh. If your Honor please, maybe—and thank you for your reminding me of that—that was Mr. McChesney and I had forgotten when I was talking. I can do that right now, I believe. That is, not produce the live witness but make the record. [1120]

Mr. Cuninghame: Of course, this is on an entirely different theory, and it is not the theory that I tried to explain to your Honor which, in our judgment, means that the Admiral Corporation should pick up the tab for the industry, not just Amana, but we have certain difficulties of proof, and for that reason we are not amending the complaint to enter this theory of joint tort-feasors, contributory infringement, and malicious interference with the business of another. This is an entirely different thing, your Honor. On Page 175 of the record while Mr. McChesney was on the stand your Honor remarked, “We are here to try to find out whether Amana and Admiral infringed the claims of the reissue patent.” I continued the examination of Mr. McChesney and was cut short by your Honor's ruling.

The Court: Mr. Cuninghame, why don't you make your offer of proof?

Mr. Cuninghame: My purpose was to have him testify to an infringement of the nature, and his

testimony would have been in words and substance in accordance with this letter from Mr. McChesney which I shall now read, or a portion of which I shall now read. I am just reading the last paragraph of it. It is a one-page, four-paragraph letter.

“My wife used to say that our Potter [1121] was the last thing in the house she would part with until she could get one like it. I don’t remember exactly when we bought the Potter, but it was around 1932, and we used it until the condensation got inside the wooden cabinet and the wood rotted out. This was in 1950. We moved the Potter to the basement and replaced it with an Admiral Dual-Temp which gives essentially the same service as the Potter did. If we had not been able to get a refrigerator of this kind, I would have rebuilt the Potter box rather than go back to the dry-cold type of box.”

This was not, as we patent lawyers state, element-by-element proof of infringement. It was, however, it seems to me, perfectly admissible at the time proof of the Dual-Temp Admiral box performing all the functions in the house of Mr. McChesney.

The Court: Perhaps Mrs. McChesney should be a witness here.

Mr. Cuninghame: I can get him down on Monday to give that testimony.

The Court: You can get him down here, but he is not going to testify as to that or anything like it. The offer of proof is rejected. Go ahead with your offer of proof.

(Thereupon there was discussion between counsel off the record.) [1122]

(Thereupon, counsel for plaintiff designated the following excerpts from the following depositions as part of their offer of proof in the case:)

DEPOSITION OF THOMAS IRVING POTTER

October 25, 1955

“Q. Now to shortcut this a little, have you any correction with respect or any disagreement with the statement of the author made on those three pages describing the refrigerator?

A. All is correct, except the last sentence in his article. That is, ‘The main point of difference as noted before is the use of the double expansion valve.’ He made an error there. He should have said, ‘the double expanders’—that is what he should have said, because we did not use double expansion valves. It was just a slip in his writing. I think it is self-evident.”

“A. Winter Hull was using a Potter box in his home, and he was terrifically enthused over it. Several times when I was at the factory, he said that he would like to interest other manufacturers. At that time he told me that they were building a large number of boxes for Stewart-Warner, that then he thought he would like the opportunity of interesting [1123] them——”

“A. (Continued): Mr. Winter Hull came to

(Deposition of Thomas Irving Potter.)

my office and brought Mr. D'Olive with him, and they both stated they were there for the purpose of negotiating for a license under my patents for the Stewart-Warner Company.

That was the purpose. I think that is a fact. That was the purpose and they stated it, and I so noted. I entered into negotiations through Mr. O'Olive with the Stewart-Warner Company. Mr. D'Olive led me to believe that they were definitely interested and sincere in their desire to take out a license——”

“Q. Mr. Potter, I show you what I believe to be——

Mr. Byron: Why don't you just show him something and ask him what it is? It doesn't make any difference what you believe it to be. You are not testifying.

Q. ——a credit memorandum of Potter Refrigerator Corporation dated September 21, 1935, attached to which is an invoice of Stewart-Warner Corporation, dated August 8, 1935.

Also, I show you a letter dated August 14, 1935, from Charles R. D'Olive to F. J. Bommer, Jr., from Potter Refrigerator Corporation, and a letter dated August 15, 1935, from Rex Manufacturing Company, Inc., to Potter Refrigeration Corporation. Do you identify those as documents produced [1124] from your regular files?

A. These documents came from my files and evidenced the return from Stewart-Warner of the

(Deposition of Thomas Irving Potter.)

two sample boxes which we had submitted to them for their examination. These boxes embodied our invention.

Q. So those boxes submitted in the course of these negotiations with Stewart-Warner, were they?

A. Yes, while the negotiations with Stewart-Warner were going on, for their examination. They were sent to Chicago and they were given full instruction on their operation and construction, and so forth.

Mr. Cuningham: I offer those four documents and ask that they be clipped together and be given the next exhibit number."

"Q. Very briefly, Mr. Potter, what was the result of these negotiations?

A. As briefly as I can put it, if I leave out the reasons why the negotiations were dropped, the negotiations were dropped. Can I be more brief?

Mr. Cuningham: No, sir, I don't think you can be more brief.

Q. Was this dropping prior to the advent on the market of any moist cold refrigerator by Stewart-Warner?

A. That was prior to their bringing out what they called [1125] their Dual-Temp box.

Q. Did or did not Mr. Bommer have any part in these negotiations?

A. Mr. Bommer was very active in those negotiations. He made several trips to Chicago. He went over our equipment in their laboratory with

(Deposition of Thomas Irving Potter.)

their engineers, explained its operation, explained the necessity of having proper balance in the combination.

Q. At that time the application for the original of the patent in suit was pending, was it not?

A. That was pending, sir.

Q. Did Stewart-Warner or any representative of it ever request access to your pending application for that patent?

A. They insisted that we show them our private papers covering the pending application. I refused to give them access to that. I told them if they were sincere in their negotiations that I would protect them on this basis, that when the patent issued, if it did not properly cover the invention, they could cancel the license for contract that they had taken out on the pending patent, and that therefore they did not need to see our private papers. I told them at that time that I did not propose to show them the private papers of our application so that they might possibly have inside information and decide to dump us overboard and then go ahead on their own to our detriment. [1126]

Q. Did anyone state to you or give you or any member of the Stewart-Warner Corporation an impression that that was a partial reason for the discontinuance of the negotiations?

A. They made a definite statement as their out, that unless we disclosed our private papers on the pending application that Stewart-Warner would not go ahead with the deal."

(Deposition of Thomas Irving Potter.)

“Q. Do you remember any negotiations with Mr. Cord?

A. Yes. Somebody—I don’t remember his name—came to my office in Buffalo in the year of 1935, and stated he represented the E. L. Cord Company, and that they felt that they would like to make a deal with us to take over the Potter Refrigerator Company, and consolidate that with one of their subsidiary companies. I have forgotten the details of the deal that they offered, but at that time they seemed quite interesting to me. We sent a Potter Refrigerator to their office in Chicago. They operated it there. They checked it and had their engineers check it. They became very enthused over the possibility.

They stated that this would fit it perfectly with the subsidiary corporation production that they had, that they could supply us with a setup that would get us going on a national basis instead of the small scale on which we were operating.

Q. Was that your desire at that time? [1127]

A. That was very much our desire, because we were handicapped for lack of capital. That was the only thing that ever held us back. And I remember very well, indeed, because of the little touch of drama in it—again I can’t remember names—but the Vice-President of the E. L. Cord Company made a trip to Buffalo. He landed there almost at midnight and asked me to come down and meet him to discuss this so that we could consolidate the deal. We discussed it. We came to an agreement

(Deposition of Thomas Irving Potter.)

on it, and I thought that we were set, and I had visions of the Potter being pushed on a national basis with ample capital.

A few days after that, I believe on a telephone conversation from Chicago—I can't remember whether it was a wire or telephone or what—but I know that we were notified from Chicago that they would have to hold up negotiations because of the Cord Company was in trouble with the Government on their financing. E. L. Cord at that time, I believe, had a controlling interest in one of the big airlines. And they asked me to hold up our negotiations until that was straightened out.

Q. When was this, Mr. Potter?

A. This was, I believe, in 1935. Cord did not get his matter straightened out, so the matter was dropped."

"Q. Now, Mr. Potter, will you go ahead chronologically and [1128] tell us what happened next with your business in household refrigerators?

A. We covered them, pushing on our dealer setup, our sales, and so forth, through 1935 and '36. At this moment, maybe there was something occurred, but I don't remember of any particular thing of significance during that period.

Q. What is the next thing of significance that you recall?

A. The next very vital thing in significance was that in the spring of 1937, late in the spring, the Rex Company, without any warning, notified us that they could no longer furnish us with boxes.

(Deposition of Thomas Irving Potter.)

That was disastrous, because in this refrigeration business your main sales to dealers, your commitments, are always lined up from, say, the first of January on through March and April, and when we were notified that Rex could not supply us that just absolutely chopped us off. There were a few boxes left from the last year, a very few.

Q. So what did you do, Mr. Potter?

A. Then when we were chopped off of that, I told Mr. Bommer that he would have to find a new source of supply. He made a number of calls on different cabinet manufacturers, discussed the matter, and he found the Sanitary Refrigerator Company of Fond du Lac, Wisconsin, and they stated that they would be interested in picking up production.

We made a deal with them to cover production. We had the tools and dies which we owned that were at the Rex [1129] Company. We had those shipped to Sanitary Refrigerator Company in Fond du Lac. They started in to line up production. But each manufacturing company has its own methods on their production line. So Sanitary, to keep it in line with their methods of production, redesigned the box and many of the tools we sent them wouldn't fit their presses, and so forth; so they redesigned it and lined up the production of the Potter box and we got nothing from them on production until much later. It was still in 1937. But by the time we had boxes, the season was over, so we had to count 1937 in our business as an absolute

(Deposition of Thomas Irving Potter.)

loss. That was very grievous, because in doing that we lost many dealers that we had.

Q. Now I notice also in 1937 a reference to Apex Electrical Manufacturing Company. What, if any, relationship between Sanitary and Apex?

A. There was a connection there. Apex came to us through Mr. Walter Frantz, who is Vice-President of the Apex Company in Cleveland, and who was in charge of all the mechanical end of their business, production, and so forth; came to me and said that he would like to have a license under our patent for the Potter type box. He explained that for several years past they had been building a conventional type, but had not been very successful with it in competition with the big operators, but they had ample resources and if they had a box such as ours which would lift them above competition, [1130] he felt that he could make the refrigerator department very successful.

Q. What was their main business?

A. Washing machines and ironers and mangles and things of that sort; but they did a small—or had a small department on household refrigeration.

Q. Well, now, will you continue? Did you reach any agreement?

A. Yes, we gave them a license. We signed the license agreement with them. We gave them, because of their—it wasn't a straight license agreement, if I can put it that way—because connected with that they promised us the thing that we had been hungry for and couldn't afford ourselves; they

(Deposition of Thomas Irving Potter.)

promised us national advertising for this type of box.

Q. Was that a large consideration in this agreement?

A. That was the main consideration, because we had not been able with Potter to nationally advertise. They promised us that they would give the biggest national advertising campaign in back of this box, bigger than anything they had ever had in their industry. That got my interest.

We made them a very special deal. That deal never would have been made if it hadn't been for that consideration. We gave them a license of 1 per cent of their factory net, but to me the main consideration was their promise of launching this nationally. [1131]

After the contract was set, a little time went on, they were to produce this in their own factory, but Mr. Walter Frantz explained that they were having difficulty in matching that in with their production.

He stated that he knew I had production at Sanitary. He wondered whether I could line up a deal for him with Sanitary to get production started, so that later on they could take it in their own plant. I took up the matter with Sanitary. At that time Sanitary had gotten started on building the Potter box. They were also on the same production line building a Sanitary box which was identical and under license from us, except that they had changed the hardware and the name plate. Mr.

(Deposition of Thomas Irving Potter.)

Frantz stated that if we would give him a different type of hardware and put their name plate on it, that would give them a chance to get started. So that was put on the production line at Sanitary for the Apex Company.

Now the Apex Company started their sales then——

Q. When?

A. Approximately the first of the year in 1938. That is when they started sales.

Q. Well, did that come to a conclusion, this license agreement with Apex?

A. Unfortunately it did.

Q. Tell us about it, please. [1132]

A. They produced during that year, and then in 1939, the first we knew of its coming to an end was when, without any notice to us, the Apex Company began dumping their boxes.

We found out only where we had dealers and they dumped them practically at half price and they ordered no more boxes from Sanitary, and I had to take it up from my end to Apex to find out what was going on. At the time I was trying to ascertain that, the two Frantz brothers—one was Walter Frantz and the other was—I don't remember his initials—I don't know the initials. He was the President. He was the financial man.

They got into a violent proxy fight between the two brothers for the control of the Apex Company.

When the fight was over, Mr. Walter Frantz was out. They came to me in Buffalo. He came to

(Deposition of Thomas Irving Potter.)

apologize, rather, for what happened, because he told me he had entered into that deal under his own initiative and in good faith. He explained to me that he couldn't tell me until this proxy fight was over, because he was a director and an officer in the company. But now that he was out, he felt privileged to tell me what really occurred.

He told me that the New York bankers instructed Apex that they would have to drop all refrigeration. I told him that I couldn't understand why a banker could dictate to a big company like Apex. He said that they had [1133] overextended inventories, that they had several million dollars in bankers' loans out to cover them, that if Apex didn't do what the bankers told them to do, the bankers could break them.

Q. All right, Mr. Potter, was the Apex agreement canceled?

A. Yes, it was subsequently canceled on October 24, 1939.

Q. Now, passing on, did you become aware of any Moist Cold competitive refrigerators on the market at about that time?

A. The time I was speaking of—there was Sanitary, Apex and Potter.

Q. Didn't you tell me once about a Continental Company?

A. That is the Sanitary. They had a trade name on their electric business. Sanitary were primarily icebox manufacturers, and the icebox had not been lost at that time. There was still competition be-

(Deposition of Thomas Irving Potter.)

tween iceboxes and electrical refrigerators. Sanitary explained to me that they didn't want to get in bad with the icebox customers so they set up a subsidiary which they called the Sanitary Refrigerator and their boxes were sold under the trade name Sanitary.

Q. Oh, Sanitary, and not Continental?

A. No, excuse me. Under the trade name Continental. They sold iceboxes under Sanitary and electric refrigerators under Continental. But it was the same company.

Q. When was the first that you noticed the Stewart-Warner Dual-Temp. Refrigerator on the market?

A. To the best of my memory, Stewart-Warner was placed on the market in the first part of 1939. Now that is to the [1134] best of my memory. It could have been in the fall of 1938, but in my memory as well as I can locate it, it was in the first of 1939.

Q. Did you have any knowledge with respect to any manufacture by Rex for Stewart-Warner at that time?

A. I had very intimate knowledge at that time, sir.

Q. What was it?

A. Rex was manufacturing for us. They were also manufacturing for Stewart-Warner on their conventional type. They were also manufacturing, if my memory serves me correctly, for the Williams Iceomatic Company, I believe. I believe they

(Deposition of Thomas Irving Potter.)

were manufacturing for Atwater Kent in a small way. I think also—now, this, I am not certain of—I think that they were building some boxes for Philco.

Q. What were they building for Stewart-Warner, if you know?

A. They were building conventional boxes.

Q. Back in 1937; is that correct?"

"A. They were manufacturing back in 1937, 1938 for Stewart-Warner. At the time we were brought into negotiation with Stewart-Warner by Mr. Winter Hull, Stewart-Warner was one of their biggest customers. Then from that time on, after the Stewart-Warner deal fell through, we had added difficulty in getting production. They didn't turn us down, but we had difficulties. [1135]

Q. Who didn't turn you down?

A. Rex did not tell us that they would not produce. We had difficulty in getting it through. I sent Mr. Bommer down there to find out why. I went down there myself at one time.

Q. What did you find out?

A. I found out from Mr. C. C. Hull, the President, that they were having financial difficulties to handle the big volume, that Stewart-Warner had told them that unless Stewart-Warner could put their own production man in charge that Stewart-Warner would pull out. So as I protested with Mr. C. C. Hull on our delays in production, he told me that he was sorry, but his hands were tied because he was in a strange position of owning a business

(Deposition of Thomas Irving Potter.)

and having lost the control of his own production.

Q. Lost it to whom?

A. To the Stewart-Warner through their man that they put down there as a production man. I have forgotten the name of the man. I met him. He was a very dynamic, domineering personality, and he is unquestionably—he ran the works there.”

“Q. What was your agreement with one William T. Morris under the date of September 20, 1940, on the agenda there? I am referring to the agenda.”

“Q. Now, what was—give us briefly and generally the [1136] negotiations with William T. Morris. Who was he?

A. He was President of the American Chain Company. Mr. Morris had a great deal of experience, and a wonderful background in commercializing patents. Mr. Morris made his first money in the famous Weed chains, and the anti-skid chains for automobiles. Mr. Morris told me at the beginning that he bought the chains with which he assembled the anti-skid chains——

Q. Will you get down to your negotiations with Morris?

A. I am trying to give you the background.

Q. All right.

A. Now, we had been so injured with our commercial efforts we did not have enough working capital to overcome that. Mr. Duncan, who was the patent attorney, in whose office Mr. A. Russell Bond had his office—Mr. Bond was my patent at-

(Deposition of Thomas Irving Potter.)

torney at that time. Mr. Bond died. Mr. Duncan carried on Mr. Bond's patent work that was still in the office for us, representing us. I had met Mr. Duncan while Mr. Bond was alive, and I okayed his taking up and continuing our patent work after Bond's death. So I made numerous trips from Buffalo to New York to confer with him. During one of those trips Mr. Duncan suggested that he was well aware of our general situation and that if I could interest Mr. William T. Morris, the President of the American Chain, in my situation, he felt that that would answer all of our problems. [1137]

He introduced me to Mr. Morris. We had numerous sessions, conferences. It ended up with our giving Mr. Morris a license under the Potter Patents, for the purpose of his taking charge of our entire patent situation, and he would sub-license manufacturers under these Potter Patents. That would relieve us of all the expense and so forth and so on, and he had the prestige and position and he had the capital.

In that agreement, Mr. Morris included in that agreement that in order to make these patents respected, if necessary he would bring proper suits. He would supply all the costs of any litigation, and that he would personally devote his personal time and attention to this, and he would not delegate it to somebody else.

Mr. Ramsey: Mr. Cuningham, may I interrupt? This is a very interesting story. I doubt that it has

(Deposition of Thomas Irving Potter.)

any materiality or pertinence to any issue in this case. This proceedings has been going on now from 2:00 o'clock until half-past three. As you know, this case has been set for pre-trial, and we have accommodated Mr. Potter——

The Witness: And I thank you, sir."

"Q. Will you tell us very briefly, Mr. Potter, so that we can get along here——

A. I will try to make my answers short.

Q. Did this agreement ever get you anything in the way of [1138] licenses or national advertising?

A. Mr. Morris signed that agreement. At the time he signed it, I know he was sincere, because I know there were no jokers in that contract.

Q. Was he able to produce anything?

A. Nothing happened. We couldn't find out what was going on. We began putting pressure on Mr. Morris and Mr. Duncan to find out what was going on.

I had one conference in New York with Mr. Duncan, and as representing Mr. Morris. Mr. Duncan said that as Mr. Morris got into it, he found that he would have to bring suit against different manufacturers and that I could not expect Mr. Morris to sue his customers because the American Chain Company had a large list of customers. Morris owned a lot of patents on bumpers and automobile equipment, and that he would not sue any of them, and, therefore, he was not pushing this deal.

(Deposition of Thomas Irving Potter.)

Q. So what did you do about that situation?

A. I could not get him to drop that position. We urged it. Nothing happened, and so—let me look at my notes here——

Q. I direct your attention to 1941.

A. Yes, sir; in 1941 our attorneys brought suit against William T. Morris for his failure to live up to that contract. We brought suit against him for \$500,000. [1139]

Q. May I direct your attention to an item, the second item under 1945? What was the result of that suit?

A. Mr. Morris settled that suit and paid us \$100,000 in cash as settlement in that suit.

Q. When was that settlement effected?

A. On April 10, 1945.

Q. Now if you will cast your eyes back to the entry under 1943, did any of your companies start suit against Stewart-Warner?

A. The Refrigeration Patents Corporation started suit against Stewart-Warner for infringement and that was—the suit was filed on August 12, 1943.

Q. Is the complete evidence of that suit contained in the four volumes that are stacked here on your desk?

A. Yes, those are the four volumes of the record in that suit.

Q. What was the result of that suit in the District Court?

A. The District Court——”

(Deposition of Thomas Irving Potter.)

“Q. Now, Mr. Potter, directing your attention to an entry under 1945, was the original of the patent in this suit involved in any other litigation?

A. That was involved with the General Electric Company. They started litigation against us under what they called for a Declaratory [1140] Judgment.

Q. Under what date?

A. That was October 8. They had approached Mr. Bristol to discuss with him the question of our patent, and whether they could build something that would avoid it.

Q. Had the General Electric Company built any moist cold refrigerators prior to that time?

A. No, not to my knowledge.

Q. Was that suit expected by you?

A. When Mr. Bristol stated that they had approached him and wanted to discuss it, I warned him against the tactics of the General Electric Company. This I know definitely. Mr. Bristol said, ‘Potter, don’t worry. It will not hurt anything if we discuss it with them.’ He said, ‘I will so handle it that they can’t use any discussion against us.’

He had a discussion on a Friday afternoon with the representative of the General Electric Company. Mr. Bristol based his discussion on the fact that anything that was said was off the record, but after that discussion, in which they laid out penciled drawings, sketches, made while they were in his office, they said, ‘Mr. Bristol, if this was done this way would that violate your patent?’ And he

(Deposition of Thomas Irving Potter.)

would look at the sketch and read his claim that he felt that would come under.

After five or six of those, they departed on Friday later in the afternoon.

The following Monday morning the papers were served on the officers of the Refrigeration Patents Company under [1141] Declaratory Action, claiming that the Company had threatened them, which it had not done.

Q. Now, what was the result, as you understand it, or the effect, as you understand it, on your original patent of the decision of the Court of Appeals in the Stewart-Warner case?

Mr. Byron: I object to that. That is purely calling for a conclusion.

Mr. Cuninghame: You may answer.

A. I didn't get the question.

Mr. Cuninghame: Please read it back.

(The Reporter read the question back to the witness.)

A. The first effect of that decision was that I got a flock of letters from all over the United States from patent lawyers, telling me in effect that they felt the judgment was wrong. I remember one letter that told me that if that was to be the law in patents, he might just as well quit his profession."

"Q. What did you do?

A. I immediately turned the matter over to Watson and Bristol to get or to meet the suit. We had had a settlement from Morris, and we had cash

(Deposition of Thomas Irving Potter.)

in hand. We had to pay a contingency to the lawyers who sued Morris, so we didn't have a whole \$100,000. I have forgotten exact—— [1142]

Mr. Cuningham: I don't think we need that.

A. (Continued): But what was remaining we turned over to Watson Bristol as a fund to support their work in meeting the General Electric suit.

Q. And you also continued, did you not, with the Stewart-Warner litigation?

A. Yes, they were handling both litigations for us.

Q. Did both litigations come to a sad end so far as you are concerned?

A. Mr. Bristol died in the meantime, and Watson Bristol, because they said that they had run out of cash for making an appeal on the General Electric Company, so Watson Bristol entered into some kind of an arrangement, a stipulation I think you call it, with the General Electric——"

"A. (Continued): The General Electric suit was tied in by our attorneys with the decision of the Stewart-Warner case. They explained to me that because we ran out of funds that they decided they would get the stipulation from General Electric that they would abide, and we would abide by the decision in the Stewart-Warner case.

When the Stewart-Warner case was finally decided against us by the Court of Appeals, and we had appealed it back and forth, when that was finished, they informed me that they had to abide by their agreement with the General [1143] Elec-

(Deposition of Thomas Irving Potter.)

tric and have an order issued in favor of the General Electric.

I insisted on my part that one thing should be made clear in that order, or whatever you call it, legally, and that was that we did not appeal because we did not have the funds to appeal. I did not agree with the findings of the judge in Portland.

Q. Did you then reissue the patent as a result of this litigation?

A. As a result of that litigation, when we had exhausted all that Watson and Bristol told us was our legal rights, and so forth, then I purchased the patent personally, and I took it up with Charles Ladd, a patent lawyer here whom I had known, and asked him whether he could not reissue it, because I had been told that if a patent——”

“Mr. Cuningham: I offer that in evidence and ask that it be marked Plaintiff’s Potter’s Exhibit 20.

(The photograph identified above was received in evidence and marked Plaintiff’s Potter’s Exhibit 20.)

Q. I show you the original designed patent, No. 155033, issued August 30, 1949, for a term of 14 years to Thomas Irving Potter, New York, New York. Do you recognize that patent?

A. Yes. That was a design that was embraced, partially [1144] embraced, by this de luxe cabinet that I speak of.

(Deposition of Thomas Irving Potter.)

Mr. Cuninghame: I would like to reserve the next exhibit number for the soft copy of that design patent which we can mark later as Plaintiff's Potter's Exhibit 21.

(The soft copy of the design identified above—the design patent—was received in evidence and it was stipulated to mark it later on when the soft copy was obtained as Plaintiff's Potter's Exhibit 21 in evidence.)

A. (Continued): When this man, Sanborn, organized the Continental Refrigerator Corporation—and that has no connection with the Continental Refrigerator of Fond du Lac—that is the name they chose. But he organized that and I turned over my reissued patent to them. I turned over this designed patent and turned over the model for this de luxe cabinet, whatever rights I might have in it, and they were to put capital into the business, and they were going then to go ahead on production, and so forth. I had at that time entered into negotiations with the Carrier people of Syracuse, the air-conditioning people. They were building at that time what they called a front-door opening freezer chest or rather cabinet. They had a production line, very little changes would have incorporated our box from a production standpoint.

The Carrier people agreed that they would [1145] handle the production of this de luxe type, the model which I have or which Moist Cold has. But they would produce that on a volume basis.

(Deposition of Thomas Irving Potter.)

We also lined up a deal with DuParkue—I really don't know how to spell it. It is the largest hotel supply house in the United States. They have offices all over the United States. It is something like DuParkue, but they are the largest hotel supply people, jobbers.

They agreed that they could handle the national distribution of this. That was all consolidated in this Continental Company that Sanborn set up. Then when the Korean War started—pardon me—I mean pardon me for referring to it—all steel was off the market. The Carrier people could not go ahead.

In the meantime, this man, Sanborn, had been trying to organize, and he had told me that he had connection with brokers all through the country, that he would be given free sway in how to organize that company. He would guarantee that he would have the finances inside of 90 days' time. And I am more ashamed of that than anything in my life, because after I got through with it, I considered that he was a phony. I was taken.

Mr. Cuninghame: Go ahead.

A. (Continued): I am sorry. Excuse me. He had called a group of people together at a luncheon and explained his [1146] picture of this Continental and wanted them to join him in the financing.

Shortly after that, a Mr.—I think the name was Bradkin—that is approximately the name—came to me and explained he had attended the luncheon of

(Deposition of Thomas Irving Potter.)

Mr. Sanborn, that he did not like Sanborn's setup at all, and he would have nothing to do with it on that basis, but he explained that he was located in Wall Street, that he knew all kinds of money people, and if I would give him the authority, he would try to line up some capital for us. But if he did that, it would have to be on another basis than the basis that Sanborn lined up with the Continental.

The result of that was that shortly after he brought me into Mr. T. Roland Burner and introduced me to Mr. Burner as a man who had a large number of wealthy clients, that he felt could or would be interested in this situation." [1147]

DEPOSITION OF FERDINAND J. BOMMER

April 21, 1955

"Q. And can you tell us what took place?"

"Mr. Byron: Make a note that the witness is now referring to his earlier testimony to refresh his memory, I assume.

A. To the best of my knowledge, this was discussed between Winter Hull and Charles D'Olive."

"Q. Now, incidentally, do you have an independent recollection as to Mr. Charles D'Olive? You ever met him? A. Many times.

Q. What was his connection with the Stewart-Warner Company?

A. Manager of the Refrigeration Department.

Mr. Byron: The same objection.

Q. And now, what sort of domestic electric re-

(Deposition of Ferdinand J. Bommer.)

refrigerator was Stewart-Warner Corporation marketing at the time that these conversations first took place between Mr. Hull and Mr. D'Olive?

A. A typical one-compartment refrigerator similar to all others in the industry except the Potter.

Q. Just how, or what condition, were foods kept in, in that type of box?

A. They were subject to the same dehydration as all other refrigerators. [1148]

Q. And they had how many compartments for food preservation? A. One.

Q. And what kind of cooling unit?

A. A conventional frosting evaporator.

Q. And what about machinery for the compressor and condenser and motor?

A. That was similar to all others used in the industry.

Q. And the cooling unit in this refrigerator, that Stewart-Warner was then marketing was located in the food chamber near the top. Is that right?

A. Yes, sir."

"Q. Now, going back to the matter of the Rex Manufacturing Company and Stewart-Warner, were there any negotiations carried on between Stewart-Warner——

Were any negotiations carried on between Stewart-Warner and Mr. Potter with respects to a license under the Potter patents?

A. There were.

Q. And when was that, Mr. Bommer?

(Deposition of Ferdinand J. Bommer.)

A. I would say approximately 1935 or '36. I think that the record should be used for a date of that kind. I don't think we should have to remember back that far. As far as I recall, 1935 or '36. Around that figure." [1149]

"Q. Did Mr. Hull recommend to Mr. D'Olive that he get permission to build the Potter type box?

A. Yes, sir. Yes, sir.

Q. And was it pursuant to that recommendation that Stewart-Warner initiated these negotiations?

A. That is correct.

Q. And in that connection, was any opportunity given to Stewart-Warner to examine and test out for the Stewart-Warner Company a Potter refrigerator?

A. It was.

Q. And how many Potter refrigerators were sent to Stewart-Warner Company?

A. I know that one was sent, definitely.

Q. Well, did you see it at the Stewart-Warner Company?

A. Yes, sir.

Q. And did the refrigerator that Potter sent to Stewart-Warner have in it the advantages you have described?

A. It did.

Q. Would you name those principal advantages?

A. It had a frozen storage compartment and a separate air condition compartment.

Q. How about the defrosting?

A. No defrosting necessary.

Q. And what was the type of coil in the air conditioning compartment? [1150]

A. Finned type coil.

(Deposition of Ferdinand J. Bommer.)

Q. Now, subsequent to this model being afforded to Stewart-Warner, did they produce a different type of refrigerator than they had produced earlier? A. They did.

Q. What type did they produce?

A. A model similar to the Potter refrigerators.

Q. Did you see the later model they produced?

A. Yes, sir. Many of them.

Q. And can you describe whether it was a replica of the Potter?

A. It was a two-compartment refrigerator very similar to the Potter.

Q. And did it have the same advantageous features that the Potter had? A. It did.

Q. Will you name them?

Will you name those advantages?

A. I say, it was a two-compartment refrigerator, one compartment arranged as frozen foods, and ice-making compartment, and also a fresh food compartment for the storage of foods over the freezing point of water.

Q. Did the Stewart-Warner Company, to your own knowledge, make any representations to the trade and the public as to the ability of its new refrigerator to keep foods in an [1151] air-conditioned condition?

A. They made—they made similar claims to those made all along by the Potter Refrigerator Company.

Q. And what about defrosting?

(Deposition of Ferdinand J. Bommer.)

A. They made the same claims for defrosting; that it wasn't necessary to defrost.

Q. Now, did you find the Stewart-Warner box in any potential customer of the Potter Company?

The new box? A. I did.

Q. Where?

A. At the Jones Appliance Company in Milwaukee.

Q. Can you describe what occurred there?

A. I had been negotiating with the Jones Appliance Company to handle the Potter line of domestic electric refrigerators. When I went to the Jones Company to complete the negotiation and arrange for their first shipment of refrigerators, they had purchased a quantity of Stewart-Warner refrigerators, which they told me, at a price advantage——

(Continuing): Over prices quoted by Potter Refrigerator Company and therefore broke off negotiations with us.

I saw price tags on the refrigerators, which I noted at that time, which were lower than the prices of Potter refrigerators of approximate size. [1152]

Q. When did the Jones Company say anything to you about whether they—how did they compare? Potter and Stewart-Warner refrigerators?

A. In what way?

Q. What did they say about the comparability, if anything?

A. They claimed the Stewart-Warner would do

(Deposition of Ferdinand J. Bommer.)

everything that the Potter refrigerator would do. That was a Stewart-Warner claim.

Q. What about the price?

A. I said the prices on the tags on the boxes were lower than comparable models of Potter.

Q. Now, when Stewart-Warner produced the Potter type of refrigerator, where did they get their boxes from?

A. They were made by Rex Manufacturing Company.

Q. And did Potter then have any difficulty getting boxes from the Rex Manufacturing Company?

A. We did.

Q. And was Potter unable, as a result, to deliver Potter refrigerators to his customers?

A. Yes, sir.

Q. Did Stewart-Warner representatives tell you at any time——

Now, what was said—withdraw it—what was said to you by representatives of Stewart-Warner with respect to their production of a two-compartment box with an air-conditioned portion of it? [1153]

A. Mr. Berner, I don't believe I understand you.

Q. Well, you have testified Stewart-Warner produced a box comparable to the Potter box. Is that right?

A. That is correct.

Q. You have also testified that these Potter boxes, they had, for their examination?

A. Yes, sir.

Q. Now, did they have a Potter box as a result

(Deposition of Ferdinand J. Bommer.)

of a negotiation for license from the Potter Company? A. No, sir.

Q. Well, did the Stewart-Warner Company ever negotiate for a license?

A. There were discussions about Stewart-Warner obtaining a Potter license.

Q. And was it pursuant to those discussions that a model Potter box was furnished to Stewart-Warner? A. That's right.

Q. Did Stewart-Warner ever take a license?

A. No, sir.

Q. Did they ever take and use the Potter innovations and developments? A. Yes, sir.

Q. Now, did Stewart-Warner do any testing in connection with the Potter box that they had?

A. They did. [1154]

Q. Will you describe that test?

A. They put the Potter refrigerator in a constant temperature room and put samples of food in the refrigerator which had been weighed before they were put in. After they were put in the refrigerator, the refrigerator was closed tightly for 24 to 48 hours and then the food was taken out and reweighed to determine a rate of dehydration by the difference in weight before and after.

Q. Now, are those conditions——

Mr. Byron: You haven't finished your answer, have you?

The Witness: I think that that was the method of test. As I said before, it was to weigh samples of food, put in the refrigerator, close the door and

(Deposition of Ferdinand J. Bommer.)

leave it closed for a period of from 24 to 48 hours, and, at the end of that noted, take the food out of the refrigerator and reweigh it so that they could determine a loss of weight in the food due to the dehydration which had taken place during its storage.

Q. Now, were those conditions comparable to the ordinary household wife's usual conditions of test?

A. They were not.

(At this point a short recess was taken.)

Q. Now, was that pointed out to Stewart-Warner that the test conditions were different than in a normal household? A. It was.

Q. And to your knowledge did they then conduct tests of [1155] the Potter refrigerator as it would be used in a household? A. I don't know.

Q. Now, after these tests and after the negotiation between Potter and Stewart-Warner were broken off, did Stewart-Warner then produce a Potter type refrigerator? A. They did.

Q. Will you describe the Stewart-Warner box that was produced subsequent to the negotiations and the test or sample box that was sent to Stewart-Warner by Potter?

A. It was a two-compartment refrigerator; one compartment for frozen storage of foods and the other for fresh foods. The fresh food compartment was supposed to be an air-conditioned compartment.

Q. And Stewart-Warner claimed that?

A. Yes, sir.

(Deposition of Ferdinand J. Bommer.)

Q. Now, after Stewart-Warner went into the production of the two-compartment box, from whom did they get their cabinets?

A. Rex Manufacturing Company.

Q. Was that the company that supplied the two-compartment box to Potter? A. That is.

Q. And did Potter then have difficulty in getting delivery of its two-compartment boxes from Rex?

A. We did.

Q. What did Potter then do about that? [1156]

A. We attempted to improve production schedules.

Q. When you failed to do that, what did you do?

A. Eventually?

Q. Yes.

A. Went to another source of supply.

Q. And was that costly to the Potter Company?

A. Very much.

Q. Would you describe what that meant to the Potter Company?

A. Well, it meant about a devastating loss of dealers.

Q. Go ahead.

A. We didn't have merchandise to deliver for a long time. Tools and dies and fixtures had to be moved from Connersville, Indiana, to Fond du Lac, Wisconsin. The tools that were used at Rex did not fit the machines used in production at the Sanitary Refrigerator Company in a lot of instances and new tools and dies had to be made, and adjustments made in the Potter cabinets, to the point

(Deposition of Ferdinand J. Bommer.)

that there were several months, not only of additional expense in adapting the tooling to the new source of supply, but also in the meantime, the loss in business that we had because we were out of merchandise.

Q. Now, do you know what arrangements, if any, existed between Stewart-Warner and Rex with respect to finances?

A. Do I know what?

If I did, I don't remember.

Q. Well, did Rex have any financial [1157] difficulties?

A. Rex had financial difficulties. Yes.

Q. And did Stewart-Warner advance them any funds?

A. I don't remember.

Q. Well, was Stewart-Warner allowed to put an expediter in the Rex plant?

A. Yes, sir.

Q. What was his name?

A. His name was Pat. Whether it was Walsh or Ryan—it was a short Irish name I don't remember—but Pat was his name.

Q. Where was he located?

A. In Connersville plant.

Q. At the Rex plant?

A. The Rex plant.

Connersville.

Q. Now, were all the Potter two-temperature boxes made by the Rex Manufacturing Company for Potter prior to moving to Standard? Were they the sole source of supply for Potter of the two-temperature boxes?

(Deposition of Ferdinand J. Bommer.)

A. Prior to moving to Sanitary?

Q. Yes. A. Yes, sir.

Q. Mr. Bommer, there were some boxes manufactured by the Leonard Refrigerator Company at one short period of time as an auxiliary line of cabinets. Was that a single compartment? [1158]

A. Single-compartment box was manufactured by Leonard.

Q. What was the chief sales of the Potter Company? Was it a single or double type?

A. Double-compartment refrigerator. Two-compartment refrigerator.

Q. Now, as a result of transferring to Sanitary, you mentioned difficulty with dealers. Did you lose any? A. We lost a lot of dealers.

Q. Now, do you know whether any dealers took the Stewart-Warner box of this Potter type?

A. You are talking about regular Potter dealers?

Q. Yes.

A. There were some dealers that took on Stewart-Warner refrigerators.

Q. Now, did you, personally, see the Stewart-Warner two-compartment boxes at the Rex Manufacturing Company? A. Yes, sir.

Q. Now, the Potter Company got the Sanitary Manufacturing Corporation to manufacture its cabinets from and after 1937, was it?

A. Yes, sir.

Q. And did the Sanitary Manufacturing Com-

(Deposition of Ferdinand J. Bommer.)

pany have a license to manufacture the Potter boxes? A. They did.

Q. Potter type refrigerators from their own account? [1159] A. They did.

Q. And would you describe that operation briefly?

A. You mean the necessary negotiations for the license?

Q. No. No, just what they did.

A. You mean what they did? They built Potter type refrigerators, two-compartment refrigerators, almost identical to the Potter refrigerators, and sold them under the name of Continental, which was a brand name that they owned.

Q. And did they do that under a license from the Potter Company?

A. They did that under a direct license.

Q. And under what name did they sell theirs?

A. Continental.

Q. Did they have their own dealer organization?

A. They had their own dealer organization.

Q. Did you go with Sanitary Manufacturing Company? A. Become employed with them?

Q. Yes. A. Yes.

Q. About when was that?

A. August, 1940.

Q. Were they then a licensee of the Potter Company, or became one shortly thereafter?

A. No. Their license was taken out long before 1940. Whether the license was still in existence in

(Deposition of Ferdinand J. Bommer.)

August, 1940, [1160] when I went there, I don't remember those exact dates at this time.

Q. But, in any event, you know that they were a licensee of the Potter Manufacturing Company and they did produce comparable boxes, is that right, of Potter?

A. I, personally, conducted most of the negotiations under which the license agreements were signed.

Q. And that was while you were with the Potter Company?

A. When I was with Potter Company.

Q. Whom did you conduct negotiations with?

A. Mr. B. K. Miller, President of Sanitary Refrigerator Company.

Q. And they culminated how?"

"Q. Now, could you describe the effect of the Stewart-Warner dual temperature refrigerator on the business of Potter Refrigerator Company?"

"A. The Stewart-Warner promotion of their two-temperature refrigerators was very detrimental to the Potter Refrigerator Company because of the widespread claims and the price differences, more favorable terms, more favorable advertising allowances, which Stewart-Warner afforded to their dealers.

Q. Than the Potter?

A. That Potter could afford. [1161]

Q. Which company was more adequately financed, to your knowledge?

A. Stewart-Warner Company.

(Deposition of Ferdinand J. Bommer.)

Q. Was Potter relatively new and small? Was Potter a relatively small concern as compared to the Stewart-Warner Corporation? A. It was.

Q. What percentage of the size of Stewart-Warner would you say that Potter was?

A. I would say that it was very small. As to what per cent, I wouldn't say.

Q. You mean very small as compared to Stewart-Warner? A. Very small."

"Q. I am asking for Potter, in comparison to Stewart-Warner. You understand that, do you not, Mr. Bommer? A. Yes, sir.

Q. And what do you say the comparison is?

A. I said that Potter Refrigerator Company was very small compared to the Stewart-Warner Corporation.

Q. Now, when did you sever your connections with Potter Refrigerator Corporation?

A. June, 1939."

"Q. Why did you leave the Potter Refrigerator Corporation? [1162]

A. I left the Potter Refrigerator Company because I thought that conditions were such that Potter business had shrunk to an extent that I wanted to make a new connection with somebody that had a greater possibility for me, personally.

Q. Did that have anything to do with Stewart-Warner?

A. I would say the results of the shrinking of the Potter business, due to Stewart-Warner promotion, was a factor in my decision to leave."

(Deposition of Ferdinand J. Bommer.)

“Q. Now, when you left the Potter Refrigerator Company, did you receive anything from them? A. I did.

Q. What was that?

A. I received a certificate for two hundred shares in the Refrigerator Patents Corporation.

Q. And do you still own those shares?

A. I still own them.”

Cross-Examination

By Mr. Byron:

“A. I said that the sales was as a result, not a prime condition. The prime condition was our delays in production. The result was, we couldn’t deliver and therefore there weren’t as many sales to record.

Q. Why didn’t the Jewett Company manufacture more refrigerator [1163] cabinets for Potter than they did? That is, the 25, 50, or 100 that you mentioned.

A. Why didn’t they go into a larger production setup?

Q. Yes.

A. Because the Jewett Refrigerator Company couldn’t afford to go in it. It was just financial obstacles that we couldn’t surmount.”

“Q. Please refer to the specification of the re-issue of Patent in suit, read that specification, and state whether or not it mentions fins, and fins particularly on the cooling coil 25 in the upper, relatively warm, chamber 14.

(Deposition of Ferdinand J. Bommer.)

A. There are two references 25 from the drawing. In the specification, No. 25 is described as a cooling coil. The words, 'cooling coil' cannot be construed in any other way but to include both of the notations on the drawing which designate one figure 25 pointing to the coils and the other figure 25 pointing to the fins which support the coils."

"Q. The question is: Refer to the specification in this patent in suit, read that specification and state whether or not you find the word 'fins' in that specification as related to the coil 25, or any other coil.

A. As a refrigerating engineer, the word 'fins' in the description is not necessary inasmuch as the drawing distinctly [1164] points to a—to both sections of the coil, and it is inclusive in the one unit."

"A. I would say that, as indicated on the drawing on that patent, a refrigerating engineer would know that it was a finned coil.

Q. Well, now, what appears there in Fig. 2 of the drawings is just an oblong outline, isn't it? 25?

A. Yes, sir.

Q. You wouldn't know. It might be a box, might it not?

A. I would say that this, as drawn is an engineer's designation of a finned coil. Would that answer your question?"

(Deposition of Ferdinand J. Bommer.)

Redirect Examination

By Mr. Berner:

“Q. Now, was the failure of Rex to deliver Potter boxes the reason why you made these frequent trips to the Rex factory?

Mr. Byron: I object. That’s leading, to begin with.

A. Yes, sir.

Mr. Byron: And it’s immaterial. Irrelevant.

Q. And did that occasion expense to the Potter Refrigerator Corporation?

Mr. Byron: The same objection.

A. A great deal of expense.

Q. Both of funds and effort?” [1165]

DEPOSITION OF ROSS D. SIRAGUSA

April 26, 1955

“Q. Can you tell us briefly for the record the history of the product development of Admiral Corporation?

A. It is in a little book and that is available to you.

Q. I would be very glad to have it. May I have a copy?

A. Yes. That gives you the thumbnail sketch of the last twenty years.

Mr. Berner: The book will be marked Siragusa Exhibit No. 1.”

(Deposition of Ross D. Siragusa.)

“Q. If you will throw your mind back, Mr. Siragusa, to that period, will you tell us briefly what led to this deal?

Mr. Byron: Objection. It is entirely irrelevant and immaterial, what led to this deal, insofar as these issues are concerned, as far as the issues in this suit are concerned.

Mr. Cuningham: You may answer.

A. To broaden our distribution.

Q. (By Mr. Cuningham): Did you initiate this transaction with Mr. Elliff?

Mr. Byron: Same objection.

The Witness: I believe Elliff came to me. I am sure he did.

Q. (By Mr. Cuningham): And that was, of course, some time [1166] prior to January 22, 1944, was it not?

A. Well, I don't know when he came to us, but he did.

Q. Can you give me the time? Was it during the suspension of the refrigeration business during the war? A. I am sure it was.

Q. Well, what did he suggest?

A. I don't recall the conversation, sir.

Q. You don't recall anything about what led you to make this deal?

A. No. It is so long ago, it is very difficult to remember. I just recall that he arranged for a meeting with Mr. Hiter, and the purpose was to sell, that is, Stewart-Warner to sell the appliance division, and we made a deal. That is it.

(Deposition of Ross D. Siragusa.)

Q. Who, besides Mr. Elliff and Hiter, do you recall discussing this matter with, on behalf of Stewart-Warner?

A. I don't recall anybody else, unless the lawyers might have sat in on it, and I don't remember their names.

Q. They were on the formalities of the agreement, I suppose, and the deal was made before the lawyers came in?

A. Yes, I am sure it was.

Q. Who else in the Admiral Corporation besides yourself participated?

A. Myself and a lawyer. I think Frank Uriell—no, it wasn't Frank Uriell. I can't tell you the name of the firm, who handled that. Williams, Castle, McCarthy, it might have [1167] been.

Mr. Baltz: I don't know.

The Witness: I don't recall.

Q. (By Mr. Cuningham): But aside from the lawyers, was there any other individual involved?

A. Not that I recall.

Q. On behalf of Admiral?

A. Yes. It was a very small deal, Mr. Cuningham, and I took it to the board of directors and they passed it and that was it.

Q. Yes, I realize that. Were you then aware of the pendency of a suit—

A. I don't recall. I might have been at the time. I might have been at the time, but I do not recall.

Q. You do not recall? A. No."

Mr. Cuningham: This may refresh your recollection, and thank you, Mr. Byron.

(Deposition of Ross D. Siragusa.)

I will read to you subparagraph H of Section II of the option agreement.

Mr. Byron: To which I make objection, the same objection, irrelevant and immaterial.

Mr. Cuningham: 'Stewart will indemnify Admiral against any loss from infringement of the Potter [1168] Patents arising prior to the date of the exercise of the option. Stewart will confer with Admiral before making any final settlement involving such Potter patents.'

The Witness: Now, what was your question?

Q. (By Mr. Cuningham): Does that refresh your recollection? A. Really, it doesn't.

Q. Had you ever heard of the Potter patents before this moment?

A. Well, I have, rather infrequently.

Q. But over a sustained period of time, is that correct? A. Yes.

Q. You have been informed, I suppose, that the plaintiffs in this action are the successors to the plaintiffs in the Stewart-Warner action and are suing on a reissue of what is referred to as the Potter patent?

A. All right. I will take that answer of yours, Mr. Cuningham. I believe it."

"Q. Now, Mr. Siragusa, I won't bother to refer to the option agreement that was annexed to the interrogatories, but I will state to you that it expressly carried with it from Stewart-Warner to Admiral lock, stock and barrel the household appliance business, refrigerators and ranges, includ-

(Deposition of Ross D. Siragusa.)

ing patents, dies, and everything. The agreement speaks for itself. [1169]

Do you recall how you operated when you took over this business during the transition period? What did you take from Stewart-Warner in the way of assets, properties, generally?

A. Well, as I recall, we took over certain tools and dies for both refrigerators and electric ranges. We took over certain equipment—not very much equipment—as a matter of fact, very little. Certain trade-marks.

Q. How about technical information?

A. Well, the technical information followed with Evans Morton and the one or two or three or four men that he brought with him. I don't recall how many men he brought with him.

Q. You don't recall now the names?

A. No, I don't.

Q. Of any of them?

A. But Mr. Morton, when you cross-examine him, he will give you that information.

Q. Thank you, sir, I will ask him that.

A. That is about all that we got. The trade-mark 'Dual-Temp' and some other trade-marks, too, which I don't recall. Maybe Zero-Zone, something like that.

Q. And patents?

A. Yes, I believe the contract specified any patents or patent applications." [1170]

"Q. Can you give me a statement, Mr. Siragusa, of what are the patent policies in general of the

(Deposition of Ross D. Siragusa.)

Admiral Corporation? Now, maybe I can help by trying to be more specific. For example, what is your policy with respect to clearance as to adversely held patents before you manufacture anything?

A. Well, I know that we try diligently, to the best of your ability, to engineer around any patents that we believe might conflict with our own ideas. Sometimes we do and sometimes we don't. But we try to engineer around any and all patents that we feel are valid patents."

"Q. Who was the first that you know of to come out with a two-temperature household refrigerator?

Mr. Byron: I object to it. It is irrelevant and immaterial.

A. I really don't know.

Q. (By Mr. Cunningham): Was it Stewart-Warner? A. It might have been.

Q. Do you know of anybody earlier?

A. I don't know of anybody earlier."

"Q. Have you had any experience in reading and interpreting patents?

A. No use in showing it to me because I couldn't read a diagram from an architectural [1171] drawing.

Q. Who would be best qualified in the Admiral organization to give us such assistance?

A. I would imagine Mr. Morton would."

(Deposition of Ross D. Siragusa.)

Redirect Examination

By Mr. Cuningham:

“Q. You mentioned as examples of your respect for adversely held patents the Radio Corporation of America and Hazeltine Corporation. Is it not a fact that you brought a declaratory judgment suit against the Radio Corporation of America to declare invalid each of its 10,000 patents in the District of Delaware a few years ago?

Mr. Byron: I object. It is irrelevant and immaterial.

The Witness: I don't recall. Can I answer that?

Mr. Byron: Yes, sure.

A. I believe we did. I believe we did.

Q. (By Mr. Cuningham): And I believe you backed down and settled the case, did you not?

A. Yes.

Q. You set up some antitrust defenses, as I recall it? A. Yes, I think so.

Q. Is that an example of your respect and cooperation on other patents?

A. Well, Mr. Cuningham, I would rather not answer that question because the answer would be so involved. There would [1172] be so many facets involved in a 10,000-patent group. Our license there would be involved. I would rather not answer the question.

Q. Did you respect the Armstrong patents in the electronic field?

(Deposition of Ross D. Siragusa.)

A. No, because certain RCA patents that we operated under got us around very nicely the Armstrong patents, we thought.

Q. Are you presently sued by the Armstrong people?

A. I believe that we are being sued by the Armstrong people.

Q. What reserves do you set up for patent liability in the Admiral Corporation?

A. I believe our annual report will answer your question.

Q. What reserves have you set up for Potter liability? A. I don't know.

Q. Will you ascertain that information and let me know, please?

A. I don't think we have set up any reserves because we don't feel that Potter has a legitimate claim.

Q. But you are not sure. Will you be sure and let me know?

A. Mr. Baltz, you can make a note and find out if we set up a reserve on Potter. I am confident we have not."

"Mr. Byron: No. We will look up the information.

The Witness: We will look it up on Potter.

Mr. Cuninghame: And you will advise me? [1173]

The Witness: And we will advise you if we have a reserve set up. I can tell you now we probably have not.

Mr. Cuninghame: Mr. Berner directs my atten-

(Deposition of Ross D. Siragusa.)

tion to Note F in your annual statement for 1954, on page 22, and I quote:

‘The company is contingently liable under pending lawsuits, re purchase agreements and guarantees, the effect of which, in the opinion of management, will not materially affect the business of the company.’

Q. Does that contingent liability include the lawsuit in which you are now testifying?

A. I am confident that it does not. However, that question will be answered by Mr. Baltz.

Q. What contingent liabilities under pending lawsuits did you have in mind in making that statement?

A. I don’t know. You would have to ask the accountants.

Q. Who would know?

A. Leidesdorf would know. George Driscoll would know.” [1174]

DEPOSITION OF WALLACE C. JOHNSON

“Q. There is a rather curious statement at page 11 of Siragusa Exhibit 1. I think I will read the two short paragraphs, and I quote:

‘In 1944, Admiral learned that Stewart-Warner was willing to sell’——

‘In 1944, Admiral learned that Stewart-Warner was willing to sell its luxury class refrigerator called the Dual-Temp, because it was unfamiliar with white goods and distribution problems in this field.’ ”

(Deposition of Wallace C. Johnson.)

“Q. Continuing with the quote, a new paragraph:

‘Admiral acquired the patents, tools, dies and engineering equipment for the Dual-Temp, the first and only genuine combination home freezer-refrigerator made at that time.’

Was it your understanding that that was the first combination freezer-refrigerator on the market?

A. Well, I never even thought about it at that time.

Q. I don’t think that is quite what this sentence says. I am trying to interpret the sentence. It is a curious sentence. I will read it again:

‘* * * the Dual-Temp, the first and only genuine combination home freezer-refrigerator [1175] made at that time.’

Now, of course, ‘at that time’ could refer to the precise year 1944, but it wouldn’t make sense because nobody was making anything for civilian use at that time in the refrigeration line, were they?

A. Not that I can recall.

Q. It must mean at that general early 1940 period.

A. Yes.”

“Q. Now, the booklet, Siragusa Exhibit 1, page 12, says that the company poured \$750,000.00 into voicing its claim that the best postwar appliances and radios would be those which bore the Admiral trade-mark.

Was that an unusual sum, \$750,000.00, to spend on voicing such a claim?

(Deposition of Wallace C. Johnson.)

A. I don't think I would be qualified to answer that.

Q. Does it seem like that to you? Would you call that about normal?

A. I wouldn't know what the other people spent.

Q. I mean normal for Admiral Corporation.

A. What?

Q. In one year, \$750,000.00 in advertising.

A. Well, as that states there, that was before we produced anything, isn't it?

Q. Yes, in 1944. [1176]

A. It is a promise from Admiral. They are specifying we spent that money to tell the public.

Q. What is the normal advertising budget on just refrigeration alone for Admiral to spend?

A. Figure about five per cent.

Q. Five per cent of what?

A. Of your total billing.

Q. That is the general rule, is it?

A. General. I would say it could be four and a half per cent, but between four and a half per cent and five per cent.

Q. Does that apply to all appliances?

A. Practically so. I mean, you might not spend that much on air conditioners, but generally speaking, on appliances it is four and a half to five per cent. Now, when I say that, I should say that is into your manufacturing costs, not of the necessary distributor billing. But you figure your cost of making the product, and you figure five per cent in for advertising over all.

(Deposition of Wallace C. Johnson.)

Q. It would be lower than that on distributor billing? A. On distributor billing, yes.

Q. Is that about the same for the other products, radios and television? A. About the same.

Q. Has that been true during the postwar period generally? A. Postwar period? [1177]

Q. Yes.

A. Well, I wouldn't know that, and I wouldn't say that we had that much in right at the start either. I really wouldn't know that.

Q. I mean after the war.

A. I know, but I say for the first couple of years I was not connected with that end of the business and I couldn't tell you what we spent at that time.

Q. But since the last few years, that has been true?

A. That is right. I would say in the last four or five years it has been true.

Q. Do you know, Mr. Johnson, whether Admiral has advertised in any other place that its predecessor, Stewart-Warner, was first with the combination freezer-refrigerator? A. No.

Q. That hasn't been the usual pitch, has it?

A. Well, what do you mean by that?

Q. Well, I mean, I find one example that I read to you on the record here. I wondered if that is a unique and isolated example?

A. Oh, I imagine there have been other times when that has been used. I couldn't tell you where or when.

(Deposition of Wallace C. Johnson.)

Q. Is that the general impression you had, that the Stewart-Warner was first with such a combination?

A. Well, the general impression, but I [1178] never——

Q. You never checked it?

A. Never checked it.

Q. Have you ever had anything to do with patent angles of the refrigeration business?

A. No, sir, I have not.

Q. Have you ever read a patent in the refrigeration field? A. No, I haven't." [1179]

DEPOSITION OF EDMOND I. EGER

"Q. What is this booklet which has been marked Siragusa Exhibit 1, Mr. Eger, if you know?

A. I have seen it before. I have read it. I believe it is a brief history of the company.

Q. Do you know who wrote this book?

A. No, I really don't.

Q. Any idea when it was published?

A. I would have to guess about three years ago. Is there any date in there?

Q. Yes, sir, there is a date in the text which I will show you, if I find it. June 30, 1933. That is in the text. There is no date on the booklet itself that I am able to find. So I assume it was written after that, and that would bring it down to the last two years? A. That is right.

Q. Was it published before you joined the company? A. Yes.

(Deposition of Edmond I. Eger.)

Q. Is that the sort of publication that either of the agencies work on or would that be a house advertising department job?

A. It could be either."

"A. Our budget for this year for the appliance division will run around two million dollars. [1180]

Q. That is for all appliances?

A. That is for all appliances.

Q. Can you break it down for refrigeration?

A. Well, roughly I would say about a million and three-quarters, around there.

Q. For refrigerators? A. Yes.

Q. The balance for the other items?

A. Yes, the balance for the ranges and so on.

Q. \$1,750,000.00, is that right?

A. That is right.

Q. Is that further breakdownable as to the Dual-Temp and the conventional type?

A. No, sir.

Q. Is it your practice to advertise both types together or do you run separate ads on the two types?

A. We have run separate ads.

Q. Have you any general practice on that?

A. No.

Q. Just as the spirit moves you?

A. Well, I would hardly put it that way, but currently we are concentrating on the Dual-Temp."

"Q. You were aware back in those years 1945 to 1948, were you not, that Admiral had taken over

(Deposition of Edmond I. Eger.)

the business of Stewart-Warner [1181] on the Dual-Temp? A. Yes, I was.

Q. Had you any familiarity with the prewar business of Stewart-Warner in Dual-Temp refrigerators? A. No, sir.

Q. Did you in connection with your work in those years have any occasion to go into the prior advertising practices of Stewart-Warner in the Dual-Temp, as a successor to that business?

A. We studied the advertising that they had done in the past, yes.

Q. Can I show you, or I do show you about fourteen pages in the Stewart-Warner record, beginning specifically—I show you more than that. At page 2,087, and running through 2,114, which are largely a collection of Stewart-Warner advertising.”

“Q. Do you recognize any of those items, and if so, you can identify them by the page number, as items that came to your attention at that time.

A. What was the last page?

Mr. Byron: 2,114.

A. I don't recall ever seeing any of this.

Q. (By Mr. Cunningham): That is, your testimony is that you don't now recall ever seeing any of this? [1182] A. That is correct.

Q. You don't wish to deny that you might not have seen one of them, do you?

A. It is possible that I did.

(Deposition of Edmond I. Eger.)

Q. You knew the trade-mark 'Dual-Temp' was assigned by Stewart-Warner to Admiral along with the business, did you not?

A. Well, I assumed so. There wasn't any question about using it.

Q. Did you in your advertising or any publicity make reference, and I mean reference as a general rule, in the early days, to the fact that you were successors to that business of Stewart-Warner, and by you I mean Admiral Corporation?

A. My recollection would be to the contrary, that we diligently avoided any reference to Stewart-Warner.

Q. Is that confined to national advertising or is that general policy, that you avoided it?

A. No, I am talking about advertising.

Q. Or publicity material?

A. No, I am confining my remarks to advertising. When you say 'national,' I have in mind also newspaper advertising, circulars, whatever we were responsible for preparing.

Q. Or little publications like this book, Siragusa Exhibit 1?

A. I wouldn't put that in the category that I am referring [1183] to. Offhand, I would refer to that as a publicity release.

Q. Well, then, do you want to except publicity releases? A. Yes.

Q. You didn't avoid reference to Stewart-Warner in your publicity releases?

A. I wouldn't know that. We were not responsi-

(Deposition of Edmond I. Eger.)

ble for the publicity releases. I want to make it clear, there was a different agency, Steve Hannigan, that handled publicity. We only handled advertising.

Q. So you might not know about that?

A. That is correct.

Q. Well, I don't want to misunderstand you. Was it a definite policy not to refer to Stewart-Warner——

A. In our advertising.

Q. ——as the predecessor of Admiral?

A. That is correct.

Q. Do you recall ever making any claims that Stewart-Warner was the first with a combination home freezer-refrigerator?

A. No.

Q. I quote from page 11 of Siragusa Exhibit 1: 'Admiral acquired the patents, tools, dies and engineering equipment for the Dual-Temp, the first and only genuine combination home freezer-refrigerator made at that time.'

The reference to 'then' is the early 1940's [1184] as I understand it.

Was that your understanding, if you had any understanding, as to who was first with a combination freezer-refrigerator?

A. I will answer it, yes.

Q. That is, that Stewart-Warner was the first?

A. That is correct, yes.

Q. Upon what do you believe that impression was based?

A. Either because I was told that or from the literature I did see.

(Deposition of Edmond I. Eger.)

Q. Have you seen similar statements to the one I quoted, similar in substance, I mean?

A. I believe so, in publicity releases.

Q. Can you recall any of them?

A. No, not specifically.

Q. But you think that claim has been made before? A. I think so.

Q. Can you give me an approximate date of anything you recall making that claim?

A. No, I really can't.

Q. Could you relate it to that 1945-1948 period?

A. Well, that would be my assumption, that that would be when it would have been made." [1185]

DEPOSITION OF EVANS T. MORTON

April 28, 1955

"Q. After you went with the development laboratory of Stewart-Warner did Stewart-Warner make any attempts to develop a moist cold two-temperature box?

A. The answer, I think, would be yes. I was hired specifically and told that was to be one of the major projects for that job.

Q. (By Mr. Cuninghame): Did you devote a substantial part of your time from August, 1936, on to such development?

A. When you say 'substantial' that would mean more than half of my time, I would assume?

Q. Whatever it was, Mr. Morton.

(Deposition of Evans T. Morton.)

A. I would say a small part of my time was devoted to that.

Q. Can you give me some percentage figure? It is a guess, I realize.

A. Over that entire period I would say probably 20 or 25 per cent.

Q. I will show you a schematic drawing which appears on page 2,534, and is marked somebody's exhibit, I think it is Defendants' Exhibit 111.

Is that a correct diagrammatic showing of the Dual-Temp refrigerator put out commercially by Stewart-Warner? A. Yes.

Q. Would that be correct as to all models up until you left [1186] Stewart-Warner in 1944, or I guess it was 1943?

A. From a diagrammatic standpoint, yes.

Q. Well, it shows the refrigerator circuit correctly, does it not? A. Yes." [1187]

DEPOSITION OF THEODORE K. QUINN

April 19, 1955

"Q. Have you had the temerity, Mr. Quinn, to publish any writings giving your qualification?

A. Yes, I left the General Electric Company in 1936, and afterwards published or wrote several books dealing with large organizations and economics generally, including one book entitled 'Giant Business Threat to Democracy'—

It was published by the Exposition Press in New York and carries copyright notice in 1953.

(Deposition of Theodore K. Quinn.)

Q. By the way, this wasn't published as a result of any conversations you and I had, was it, Mr. Quinn? A. No, sir."

"Q. Is that the patent that covers the invention referred to at page 216 of your book?

A. Well, I cannot say that I examined the patent in connection with that particular statement. I simply reported in my book what was just general information and knowledge I thought.

Q. I want to be entirely clear on that, Mr. Quinn.

A. I didn't know that there would ever be any lawsuit about it.

Q. Perhaps you had better tell us in what connection you [1188] have seen this patent when you read it with respect to this book. It is my understanding that it was after you wrote the book; is that correct?

A. Well, as an executive in charge at that time, I looked over all the new developments and while I am not a technical man I had general information in regard to it as far back as that, but I also have seen it since then.

Q. Well, so far as you can tell, being a layman and not an expert, a patent lawyer, does that refer to what you meant by Moist Cold?

A. Oh, yes.

Q. I suppose this is subject to Mr. Byron's objection, but I happen to find in front of me a clipping from the New York Times under date of May 11, 1953. I don't know what page, but it is probably

(Deposition of Theodore K. Quinn.)

in the Book Review Section, reviewing Plaintiff's Quinn Exhibit 2. A. Yes.

Mr. Cuningham: I ask that that be marked Plaintiff's Quinn Exhibit 3.

Q. Mr. Quinn, have you ever been called upon to testify in connection with any public issues and particularly in connection with any small business inquiries of the Government?"

"Q. Mr. Quinn, I have before me a publication entitled, 'I [1189] Quit Monster Business,' apparently written by you. I do not wish to offer it in evidence, but did you write this? A. Yes.

Mr. Byron: I object, because it has no pertinency whatsoever. What Mr. Quinn decided to do, working for one corporation or quitting that corporation, has nothing to do with the question of infringement or validity of the patent.

Mr. Cuningham: I wish to quote a passage from this publication, on page 25——

Mr. Byron: Same objection.

Mr. Cuningham: ——as follows, 'The poor inventor can hardly afford to litigate at all, and usually feels forced to surrender. Only those who have the means can indulge as they do in the other patent abuses such as: Fencing, which consists of surrounding a legitimate patent with numerous additional inventions, anticipating all possible improvements.'

Mr. Byron: I object, for the same reason.

Q. (By Mr. Cuningham): Is that a correct

(Deposition of Theodore K. Quinn.)

definition according to your understanding of the term patent fencing?

A. That is my idea of it. I am conscious of being in a strange land now. We are in the presence of experts.

Mr. Cuningham (Continuing with quotation): ——

Mr. Byron: Same objection.

Mr. Cuningham: ——‘interference, a practice of [1190] nuisance applications to harass and delay the development of a competitive process; and litigation to benefit of monopolistic combination, which by bringing suits and appeals in many court circuits, may require an inventor to defend his rights at prohibitive expense.’

Does that correctly express your views?

Mr. Byron: Same objections.

A. Yes, sir.”

Cross-Examination

By Mr. Byron:

“Q. There is a quotation on page 116 of your book, the book you wrote, ‘Giant Business Threat to Democracy’——

Mr. Cuningham: I hand it to you.

Mr. Byron: I don’t care to see it.

Q. And then you stated that Irving Potter, who invented the refrigerator in question, received little or nothing for his invention.

Mr. Cuningham: I object to that as being an incorrect quotation.

(Deposition of Theodore K. Quinn.)

Mr. Byron: You may quote it, if you desire. I am giving the sense of it.

Q. Did I give the sense of it?

Mr. Cuningham: It is your examination.

Mr. Byron: All right, then don't interfere.

A. Except that you refer to it as a refrigerator, but I [1191] thought of it as a principle.

Mr. Cuningham: That is the precise difference I had in mind.

Q. (By Mr. Byron): Well, in any event, you say, 'Who received little or nothing from his invention.' Now, what is the basis for that statement?

A. Just general information, and my whole statement there is as to general knowledge in the refrigeration industry.

Q. Where did you receive your knowledge on that point?

A. I suppose from many, many sources.

Q. Just name one source.

A. You mean, specifically, that he received nothing from it?

Mr. Byron: Yes.

A. Or a little from it?

Mr. Byron: Yes.

A. I think he told me that.

Q. You are certain of that?

A. Quite sure of that.

Q. When did he tell you that?

A. Oh, within the last five years. I tried to check all of those statements I made in my book as responsible authors try to do.

(Deposition of Theodore K. Quinn.)

Q. Well, in other words, you are taking his word for it, as his statement?

A. Yes, that and, as I say, being in the industry, which [1192] I was, you have an impression about what goes on, don't you know.

Q. There is talk, I know. But you say you know nothing about this industry since you left in January, 1936.

A. I wouldn't say I knew nothing about it, but I couldn't answer specifically about this.

Q. You know nothing about the General Electric machines?

A. No, I didn't say that. I couldn't identify a particular model."

"Q. You understand what I mean, don't you, when I am talking about this?

A. Well, I understood that you were charging me with absolving myself from all knowledge. I didn't mean to do that. I only mean to say with respect to that model that I couldn't identify it.

Q. What model, then, did the General Electric Company make after January, 1936?

A. Well, there again, they made various models, but from that point on, I don't know specifically.

Q. Well, then, you don't know the structure or operation of any of the General Electric refrigerators after you left?

A. Yes, substantially, that is right.

Q. Well, that is substantially what I said before.

(Deposition of Theodore K. Quinn.)

A. (Continued): I didn't so understand it. Perhaps it is [1193] my fault.

Q. What is the basis for your reaching your conclusion, if this is your conclusion, that large corporations have used the patent system, and that the individual inventor has no chance?

A. I have had a good deal of contact with inventors who have come to me with ideas while I was with the General Electric Company and afterwards, and I am always impressed—almost with a sense of pity—with their limited means, their devotion to an idea, to the exclusion sometimes of a source of livelihood for their families, and then I know, having been on the other side, what they have to deal with when they come to sell an idea, or a patent, to a large corporation. To them it may have been worth many, many years of devotion, but to the company who comes to buy them out, they very often will give the man \$1,000 just to get rid of him, if anything, and then if he attempts some other alternative, such as to launch a business, he usually has no idea of what is involved in the organization of the business, in the production of the product that he has in mind. He is just an all-around, in my experience and judgment, pitiful creature.

Q. Well, haven't you found it to be a fact that many of these men who came to you to submit ideas to General Electric Corporation really had little, if any, invention to suggest to you, in many instances? [1194]

(Deposition of Theodore K. Quinn.)

A. I think that is undoubtedly a number of them, the larger portion of them, have ideas that are not meritorious. But given a number, there is always a percentage of them, I find, who do have merit, and that you afterwards see adopted by some of these companies that will not pay for it in the beginning.

Q. Is that a practice at General Electric Company?

A. I don't want to charge General Electric Company with being any worse or any better than any other big corporation. I think there goes with size an impersonality, an inhumanity, if you please, that doesn't exist where men deal intimately and closer with each other as principals.

Q. Well, then, you mean, as a result of that, that there is a wrongful appropriation of inventions by the General Electric Company, inventions of others?

A. Anyone with large capital and market power is in a position to take advantage.

Q. I say, does the General Electric Company do that?

A. We made a practice of getting the most we could for the least money, and when we were dealing with a man who couldn't organize a business of his own, to make his product, he was almost at the end of his rope when he came with us and was glad—in many cases about which I am familiar—was glad to take a very small compensation.

Q. What was your full period of time with the General Electric [1195] at the time you were there?

(Deposition of Theodore K. Quinn.)

A. Well, I started with the General Electric Company—let us see, it was in 1912. I was there for 24 years.

Q. And had General Electric Company during that entire period maintained a large Patent Department? A. Yes.

Q. And what was the function of that Patent Department?

A. Well, as is all Patent Departments, to screen such patents as were presented to the Company, to work out and present on behalf of the Company, applications as a result of work that was done by men within the Company, and to function generally as the name suggests.

Q. And when inventions were submitted from the outside or the General Electric Company observed developments, they saw to it that they made a patent investigation to find out whether or not there would be infringements of patents, did they not? A. Oh, yes.

Q. As a matter of fact, General Electric has always maintained a large corps of patent searchers in Washington, isn't that correct?

A. I don't know how large the force is in Washington, but we were represented there.

Q. How many patent lawyers were there in the Patent Department of General Electric Company at the time you were a Vice-President [1196] in 1930—from 1930 to 1936?

A. I don't recall exactly, but I imagine there were twenty.

(Deposition of Theodore K. Quinn.)

Q. If I told you that there were fifty, would you be surprised at that number?

A. No, it could have been fifty, but I don't think so. I have been in the Department and looked them over. I don't think there were fifty.

Q. Did you know that this very same Potter and the General Electric Company had litigation with respect to his original patent? A. No, sir.

Q. The reissue of which is now subject to this litigation? A. I did not know."

Redirect Examination

By Mr. Cuninghame:

"Q. Based on your experience as a merchandiser of refrigerators, would you say that a two-temperature box, such as that illustrated in the Potter patent, reissue patent in suit, would command a substantially higher price to the purchasing public than the ordinary conventional box without the moist cold feature?

A. Well, the moist cold had an undoubted appeal as evidenced by the fact that we made several rather futile attempts to achieve it through such mediums as these pans and hydrators, and also by the fact that it has since been very widely adopted [1197] and is now in quite general use. I think the answer is in the evidence of what has happened—that the moist cold refrigerator has become acceptable and is now very widely in use.

Q. Is it now a standard article? A. Yes.

(Deposition of Theodore K. Quinn.)

Q. And so far as you know, is that standard article of commerce founded by the Potter organizations?

A. To the best of my knowledge, and I have so said and so written."

"Q. I call your attention to pages 16 and 17, either one or both of them, and ask you if you recognize that two-unit double-compartment box?

A. Oh, yes.

Q. Well, now, is that a product of the General Electric Company, to your knowledge?

A. Only as I see it announced here in this pamphlet.

Q. In about 1939?

A. The date here is 1939.

Q. Do you recall any earlier two-compartment box that was actually marketed by G.E.?

A. None except the one I mentioned a while ago, where we made a stab at it and abandoned it.

Q. That was a flop? A. Yes." [1198]

"Q. Can you give us any idea of what the ratio of cost to price would be with respect to these moist cold boxes which are now a standard article of commerce and the conventional dry cold box which is likewise a standard article of commerce?

A. I am afraid I don't know enough about that to give you an answer. I can tell you, generally, that the practice in the appliance business with respect to pricing is to multiply your factory costs by about two and one-half times, and I should as-

(Deposition of Theodore K. Quinn.)

sume that that same formula would apply to any product of any description. That is generally true.”

(Whereupon proceedings herein were adjourned to Monday, November 28, 1955.) [1199]

Monday, November 28, 1955, 11:00 A.M.

proceedings herein were resumed pursuant to adjournment, as follows:

The Court: We just contacted Mr. Price. He thought we were convening at 1:00 o'clock. This demonstrates how the absence of one juror can cause a lot of confusion to a lot of people. Be sure to remember the hours.

I think that this might be a good time to complete the record. Go ahead.

Mr. Cheatham: May the record show that your Honor ordered that Plaintiff's Exhibit 19 and all of the patents listed therein, 19-A to 19-II, are in evidence.

The Court: Yes, I think that's right. It may be admitted, Mr. Cheatham.

(List of patents, previously marked for identification, were received in evidence as Plaintiff's Exhibits 19-A to 19-II, inclusive.)

Mr. Cheatham: May the record also show that it has been agreed between counsel for the parties that the various minor errors may be corrected in the testimony of Mr. Parker, and I want particularly to show now that on page 836 the patent

number thereon should be 2,636,228 in both instances.

Also may the record show that it has been [1200] stipulated between counsel that various physical exhibits which are listed as being in evidence on various pages are not listed in the index and that that may be corrected?

Mr. Cuninghame: If your Honor please, that closes the plaintiff's prima facie case.

The Court: I think it's going to take about 15 minutes before Mr. Price is going to be here. I think under those circumstances it might be just as well if you would retire to the jury room where it is more comfortable for you, and we can take up some legal matters then.

Mr. Kolisch: Your Honor, I am wondering if you want at the commencement of the defendants' case for us to offer any of the exhibits which have not yet been received, defendants' exhibits which we are ready to offer now. Most of them have already been received.

The Court: Well, you can offer them. That would be a good idea, but I don't see why the jury has to be here while you are offering exhibits unless you want them here.

Mr. Kolisch: No.

The Court: All right. You may be excused.

(Whereupon the jury was excused and the following proceedings were had out of the presence of the jury:)

The Court: Go ahead and offer your exhibits.

In the first place, I think the record should show [1201] that the defendants have moved for a directed verdict on the grounds set forth in the written motion, which contains a file date of November 25th. At my suggestion the defendants have waived argument and I have denied the motion for a directed verdict because I assume that a similar motion will be made at the conclusion of all of the testimony.

Now, Mr. Kolisch, do you want to offer something?

Mr. Kolisch: Yes, your Honor. Defendants' Exhibit 110. These are all listed in the pretrial. Defendants' Exhibits 111, 112, 113, and 118.

Mr. Cuninghame: Now, if your Honor please, there is objection to some of those. There is objection to 110 on the ground that like other patents in evidence it is not prior art. There is objection to 111 on the ground that that is not even prior to the date of inventions that have been established in plaintiff's case. There is no objection to 112 and 113.

The Court: 112 and 113 may be admitted.

(The documents, previously marked for identification, were received in evidence as follows: G. A. Gase and E. A. Seymour patent, March 15, 1955, as Defendants' Exhibit 112 and F. W. Wolf patent, December 16, 1919, as Defendants' Exhibit 113.)

Mr. Cuninghame: On what—was 118 offered?

Mr. Ramsey: Yes. [1202]

Mr. Cuningham: Let me see what it is. Oh, if your Honor please, 118 was objected to strenuously before, and that is the later 1940 patent of Mr. Potter. It has no connection with the case whatsoever or with the plaintiff—it is not just a patent, it's the whole file wrapper. October 29, 1940—it can have no possible bearing on any issue.

The Court: Well, Mr. Byron at that time said that the file wrapper showed some admissions against interests.

Mr. Cuningham: Your Honor, I don't see how it is possible.

The Court: Well, I don't know either, but I haven't seen the file. I will have to take a look at it.

Mr. Cuningham: Well, could we just mark it for identification and you reserve a ruling?

The Court: I have already done that. Nobody showed me the part that is alleged to contain the admissions. What portion of the file wrapper contains the admissions?

Mr. Ramsey: Well, this file wrapper is a patent which was filed within six months of the patent—of the granting of the original patent; that is, the patent that matured in the reissue patent. It contains very similar language in its claims and in its disclosure to the patent in suit, and there is an interpretation in that patent of what the patentee, Potter, contended for words such as “within” and “nonfrosting coils,” and a lot of the elements and the organizations that [1203] are the subject matter of the patent.

The Court: Is that what he himself contended?

Mr. Ramsey: He contended to the patent office in that regard.

Mr. Cuninghame: Your Honor, I deny that. I think it's a contention in argument by his attorneys. It's unfair to admit this sort of thing for another reason, your Honor: It brings in the arguments pro and con of the patent office at a wholly later date. It could have nothing to do with any issue in the case, prior art or subsequent art.

The Court: Well, if Potter is making certain contentions and he puts an interpretation on words which are involved in this litigation I think it's admissible. But I would like to look at the file wrapper myself. I want to check that file wrapper.

Mr. Cuninghame: I think Mr. Ramsey should point out the portions that your Honor asked him to.

The Court: All right. I wish he would.

Mr. Ramsey: Would you care to——

The Court: What about 110 and -11?

Mr. Ramsey: 110 is one of the file wrappers in this case, Lungard. It shows on the back of the patent as one of the patents relied on by the patent office itself as prior art.

Mr. Cuninghame: That is true. [1204]

The Court: Well, it's admissible. It may be admitted.

(Lungard file wrapper, previously marked for identification, was received in evidence as Defendants' Exhibit 110.)

The Court: What is 111?

Mr. Ramsey: 111 is the Gibson patent, the re-issue, 29,141, that was filed September 30th, 1930, the original of it was, and thus is prior in point of time to the filing date of the patent in suit.

Mr. Cuninghame: It is not prior art, your Honor, and it is not prior in time to the invention date we have established.

The Court: What about that? Do you have to prove that Gibson was invented prior to the date of filing?

Mr. Ramsey: I think the presumption is that the filing date holds unless they can prove an earlier date. Whether they have or have not I don't know. That's only one of the purposes for this patent which shows the patent under which these defendants operate and under which they have a license.

The Court: All right. It will be admitted.

(Gibson Reissue Patent No. 29,141, September 30, 1930, previously marked for identification, was received in evidence as Defendants' Exhibit 111.)

Mr. Cuninghame: May I get a little clarification? You say "under which the defendants operate." Now, is it the [1205] admission of the—Mr. Ramsey and the defendants here that the Gibson patent covers any of the accused structures?

Mr. Byron: No.

Mr. Cuninghame: Well, then, how do you operate under a patent if you—if it doesn't correspond—

Mr. Ramsey: We secured a license on it.

Mr. Cuningham: All right. Your Honor, if they don't use that license on anything accused in this case I think it's wholly irrelevant, and for that reason I object to it.

The Court: All right. Your objection is noted. The exhibit is admitted.

Mr. Kolisch: There were two others, your Honor: 120-A and 120-B.

The Court: What are they?

Mr. Cuningham: If your Honor please, those are objected to.

The Court: I don't know what they are.

Mr. Kolisch: 120-A is a Potter trust agreement and 120-B is the Potter-Bronaugh letter.

The Court: Well, that goes to the question of title.

Mr. Cuningham: Title?

The Court: Isn't that right?

Mr. Ramsey: That is correct. I thought that the Court admitted them but the record does not show it.

Mr. Cuningham: No, your Honor, I thought the Court [1206] excluded them. They have nothing to do with legal title in this lawsuit as part of alleged clean hands. I have never been able to understand and certainly they are not competent. They haven't been proved in the case. They are not only irrelevant and immaterial but not proved, and I object to them.

Mr. Ramsey: If the Court please, the Court will remember that this went in with the Potter deposition and these are actual copies that Mr. Pot-

ter personally gave to counsel when his deposition was taken and testified that they are an outline of the plan under which the plaintiff corporation was formed, and upon which he operated.

Mr. Cuningham: Now, if your Honor please, that is not my understanding. The documents have been in the defendants' possession since 1951 and the deposition that they are mentioning is the deposition in a wholly different lawsuit not between the same parties, in a suit in New York.

Mr. Ramsey: If the Court please——

The Court: I didn't understand it that way. We came across that testimony, I believe, and there was a question as to whether the trust agreement was actually signed and you contended that you knew of your own knowledge that they weren't signed.

Mr. Cuningham: No, your Honor, I did not. I said that I had reason to believe that they weren't, and my position is [1207] that they haven't been proved to have been signed.

The Court: But the testimony of Mr. Potter was that this was the outline of the arrangement that they had with the trustees, is that correct?

Mr. Cuningham: That is not my understanding, your Honor.

The Court: Well, let's read the portion of the transcript that says that.

Mr. Cuningham: I don't know, I don't think it says it.

The Court: Is it the testimony in this case or in some other case?

Mr. Ramsey: Testimony in this case and you

will find it's already been written in. This subject came up and the Court will possibly remember that I offered these and I thought the record should indicate——

The Court: I thought I admitted them.

Mr. Ramsey: I did, too, but the record is silent.

The Court: All right. They may be admitted. Exception is allowed.

(The documents, previously marked for identification, were received in evidence as follows: Potter Trust Agreement, as Defendants' Exhibit 120-A, and Potter-Bronaugh letter as Defendants' Exhibit 120-B.)

The Court: Anything else? [1208]

Mr. Kolisch: I would like the clerk to check and see if the defendants now have offered and everything has been received in evidence with the exception of 103 and 103-A.

The Court: You want to do what?

Mr. Kolisch: I just want to see that we have everything in.

The Court: You check with the clerk.

We will take a short recess.

(Recess.) [1209]

The Court: Mr. Ramsey.

Mr. Ramsey: Call Mr. Muffly.

GLENN MUFFLY

a witness produced in behalf of Defendants, having been first duly sworn by the Court was examined and testified as follows:

Direct Examination

By Mr. Ramsey:

Q. Your name is Glenn Muffly?

A. Right.

Q. You told the Reporter that you——

Mr. Cuningham: If your Honor please, we, of course, have the hope of being able to admit Mr. Muffly's qualifications to a limited extent as an expert in his field. May I examine briefly on voir dire before doing so?

The Court: You are not satisfied that he has the qualifications?

Mr. Cuningham: Well, sir, I would like, for the purposes of the type of admissions—I think it will be a limited admission—I would like to have him answer two or three questions very briefly.

The Court: I think that under the circumstances—I do not know what field they want to qualify him in as an expert—that we ought to let him go ahead and first qualify him, and if at any time you are satisfied they will stop. [1210]

Mr. Cuningham: Your Honor, my purpose was to save time and to find out about certain matters that I am concerned to know about before making such a sweeping admission.

Mr. Byron: Let us not worry about saving the

(Testimony of Glenn Muffly.)

time in defendants' case. The plaintiff has taken a lot of time, and we will take less time.

Mr. Cuningham: Your Honor, I wonder if I might ask him, ask Mr. Muffly, for example, whether he is admitted in the Patent Office, whether he is a patent lawyer or a patent agent.

The Court: You will have all the opportunities in the world to interrogate him on the voir dire.

Mr. Ramsey: We will be very glad to stipulate that he is not and also stipulate he is not a lawyer, does not practice law. Is there anything else?

Mr. Cuningham: Yes, I would like to know whether, with the exception of the one case that I know about, he has testified in other patent suits on refrigeration.

The Court: What is the situation about that?

Mr. Cuningham: I would like to have Mr. Muffly answer. I think that would be the quickest way.

The Court: Have you testified in other cases?

The Witness: I have.

Q. (By Mr. Cuningham): For what clients, Mr. Muffly, what [1211] cases?

The Court: Well, Mr. Cuningham, you will have an opportunity to interrogate this witness. Please be seated. Go ahead and qualify him any way you want, Mr. Ramsey, unless Mr. Cuningham is willing to admit his qualifications.

Mr. Cuningham: Your Honor, I will admit that he is, as testified, a refrigeration engineer, but be-

(Testimony of Glenn Muffly.)

yond that I do not feel that I can admit his qualifications.

The Court: I am the one to make that determination as to whether he is qualified as an expert or not. I do not know the man's qualifications. I have told you before that when Mr. Byron admitted the qualifications of Mr. Parker that was all. Then there was no question about it. Now there seems to be a question, and in view of that fact we will permit Mr. Ramsey to make his own case.

Q. (By Mr. Ramsey): Will you tell me your occupation?

A. Consulting engineer in refrigeration and particularly electrical refrigeration.

Mr. Byron: Now, Mr. Muffly, you and I mumble to each other sometimes, but please speak up so that everybody can hear you.

The Witness: I will try to keep my voice up.

Q. (By Mr. Ramsey): Where do you have your office?

A. In Springfield, Ohio.

Q. That is the same place that you live? [1212]

A. Yes.

Q. What is your first experience in the field of household refrigeration?

A. First actual experience started in 1925.

Q. Would you please state with whom?

A. With the Copeland Products, Inc., a newly organized company that has just purchased the business of Ed Copeland who was making electric refrigerators in Flint, Michigan, and the plant was being moved to Detroit.

(Testimony of Glenn Muffly.)

Q. Are you familiar with the practical household refrigeration art as it existed at that time?

A. Very familiar with it.

Q. Would you please explain that to the jury, the state—state the state of that art, practical art.

Mr. Cuninghame: Objection, your Honor.

The Court: Are you a graduate of any college?

The Witness: I am—I have attended a couple engineering colleges. I have no degrees, no honorary degrees even.

The Court: How many years did you go to engineering school, and which ones?

The Witness: I went to Iowa State College and to Armour Institute for a couple of years. I am mostly self-educated, rather a practical fellow than theoretical.

The Court: How long have you been in the field of refrigeration? [1213]

The Witness: Thirty years.

The Court: Since 1925? A. Since 1925.

The Court: Tell us the jobs that you have held and what you have done. Go ahead, Mr. Ramsey, qualify this witness. You have done it.

Mr. Ramsey: If the Court please, I was going to develop through this witness the state of the art from 1925, 1930, not qualify him as a patent expert, although I will because that will later develop.

The Court: Well, I think that the witness' qualifications should be established before any questions are propounded to him.

Mr. Ramsey: Very well.

(Testimony of Glenn Muffly.)

Q. In connection with your profession what societies do you belong to, Mr. Muffly?

A. I belong to the American Society of Refrigerating Engineers, the National Association of Professional Engineers, to the Ohio Society of Professional Engineers, to the Engineers Club of Dayton, to the Engineers Club of Springfield, to the Springfield Section of the Ohio Society, and have in the past belonged to other societies; for instance, the Society of Automotive Engineers I have belonged to for many years prior to my entry into refrigeration and overlapping with it some ten or fifteen years. [1214]

Q. Have you held offices in those societies or any of them?

A. I was national president of the American Society of Refrigerating Engineers for the year 1932.

Q. Are you a professional engineer so qualified in the State of Ohio?

A. Yes, I am a registered professional engineer in the State of Ohio.

Q. In connection with your profession in Springfield, Ohio, do you have any connection with patents?

A. Yes, a great deal.

Q. Would you please state what sort of files you keep?

A. I started compiling records of patents first for my own benefit, taking out patents, and this grew into quite an elaborate field, starting in 1929-30, and this field has grown now to a point that it

(Testimony of Glenn Muffly.)

represents a large part of my work, and I have what is generally recognized as the most complete cross-index file of refrigeration patents in the country.

Q. Will you state how many patents are contained therein for reference?

A. Something over a hundred thousand.

Q. Are those United States patents?

A. Most all United States patents; a few foreign patents.

Q. In connection with your work, who are your clients? [1215]

A. My clients originally were annual retainer clients I worked for regularly. At the present time I am only retained on special advance studies so that the list of clients is not constant from month to month. I have served about 50 or 60 different companies including most of the large companies. It is easier to say whom I have not served. I have not served the large electric companies of General Electric or Westinghouse.

Q. Is your practice limited to refrigeration?

A. Yes, my consulting work is.

Mr. Cuningham: If your Honor please, I do not think that is responsive, whom he has served. I would like to know what clients he now has. That is the question.

The Court: What clients have you served within the past two years?

The Witness: The parties here.

The Court: Admiral and Amana?

(Testimony of Glenn Muffly.)

The Witness: Yes.

Mr. Cuninghame: This is just within the last two years, or how long have you served them, each of them?

The Court: Mr. Cuninghame, why don't you wait until this witness has testified, please. You are going to have all the opportunity to interrogate him, but I think he ought to be able to answer the questions at least that I ask him.

The Witness: A part of this service is to [1216] companies who are licensed under some patents of mine, and that would include Seeger Corporation.

The Court: What do they manufacture?

The Witness: Seeger Company is a large manufacturer of refrigerators. They manufacture the Sears Roebuck refrigerator; the Frigidaire Division of General Motors; some companies that make parts of refrigerating equipment; the Hoover Company who are not manufacturers of refrigeration but are much interested in it. They are the vacuum sweeper manufacturers.

Q. (By Mr. Ramsey): Are those typical of your clients?

The Witness: That is typical of the——

Q. About how many patents, did I ask you about how many patents are reflected in your files?

A. About a hundred thousand.

The Court: Are they all refrigeration patents?

The Witness: No, not all, but predominantly refrigeration.

The Court: Over half of them?

(Testimony of Glenn Muffly.)

The Witness: Oh, 90 per cent, I would say.

Q. (By Mr. Ramsey): What is the remaining 10 per cent?

A. They are electric appliances, largely, and a few in the aircraft field, but they are mostly electric appliances, home appliances.

Q. Do they or do they not relate to, in some fashion, refrigeration? [1217]

A. Yes, they are other appliances that are commonly manufactured by the same companies that manufacture electric refrigerators.

Q. In connection with your work, do you have an opportunity to study patents relating to refrigeration?

A. Yes, my work has shifted in that direction in recent years.

Q. Do you understand claims of patents?

A. Yes.

Q. Do you analyze claims and apply them to other patents and to structures? A. Yes.

Q. Have you secured any patents in the refrigeration art? A. Yes, a great many.

Q. Do you or do you not write your own specifications before presenting them to your attorney for approval and criticism?

A. I write them myself, but we do not stop there. I give it to the attorney to work over and offer his suggestions.

Q. Do you draft your own claims for approval and criticism of your own attorney?

(Testimony of Glenn Muffly.)

A. Yes, I draft the claims and consider my attorney's suggestions finally, based on what we shall file.

Q. As I understand your testimony, you are not an attorney? A. I am not an attorney. [1218]

Q. In making up your cross-file and references therefor, do you read the claims?

A. Yes, I look at every patent before it goes into the file. [1219]

Q. (By Mr. Ramsey): Do you discuss claims with regard to your own application with examiners in the United States Patent Office?

A. Yes. I often visit the patent office to——

Q. Are you familiar with the patents in the United States Patent Office with any of the refrigerator art? A. Yes.

Q. Are you familiar with the classification of the patents in the United States Patent Office in the refrigeration art?

A. Yes. I have a copy of it in my own office as applied to refrigeration, but my own file—my own classification is the one I use for reference.

Q. I believe that you stated you are consulted by manufacturers in refrigeration art and their attorneys? A. Yes.

Q. And in connection with that work does your work entail the presence or absence of elements in combination claims? A. Yes. I——

Q. Are you familiar with file wrappers——

A. Yes.

Q. ——of the United States Patents?

(Testimony of Glenn Muffly.)

A. Yes.

Q. Are you familiar with the reference cited in the file wrappers? A. Yes. [1220]

Q. Are you familiar with the theory of refrigeration? A. Yes.

Q. In 1925 what position did you hold with Copeland?

A. I came to Copeland from the automotive industry and was a special representative of the president of the company with the general job of helping to get the plant going.

Q. What position did you thereafter hold with Copeland?

A. I was very soon after that, after I organized the planning department of the plant, I went into engineering work to develop a new refrigerator.

Q. What position did you hold?

A. Well, I had no title at that time. I was merely development engineer, working on this job with no title. I became——

Q. Did you later acquire a title?

A. I became chief engineer within a few months.

Q. And what year was that?

A. That was in the year '26. I started in '25, late in the summer or early in the fall, and in '26, along the middle or the latter part of the year '26, I became a chief engineer of Copeland.

Mr. Ramsey: I submit to the Court Mr. Muffly's qualifications not only in the refrigeration art but also in the patent field as a patent expert.

(Testimony of Glenn Muffly.)

Mr. Cuningham: If your Honor please, may I ask him one question? [1221]

The Court: Go ahead.

Mr. Cuningham: Isn't it true, Mr. Muffly, this elaborate file that you have of 100,000 patents is used primarily by you on requests for patent searches of the prior art?

A. That's one of the main uses of it, yes.

Mr. Cuningham: Is that not the main use?

A. Originally it was just for my own use but now it is searches, and those searches are, of course, of prior art.

Mr. Cuningham: Now, for how many years has that been true, would you estimate?

A. When I started making such searches?

Mr. Cuningham: Yes; using your own file.

A. This has been a gradual shift from my work as consulting engineer to the work of patent expert and making these searches. The main part of that has come in the last 15 years.

Mr. Cuningham: Now, the searches are mostly the test of validity or the scope of an issued patent, are they not?

A. I do not pass on the validity of patents.

Mr. Cuningham: Well——

A. I merely make searches to see if these things are disclosed in the prior art. It is up to the client then to decide if he wants to negotiate or what he wants to do.

Mr. Cuningham: That's the principal part of this search work, is that correct?

(Testimony of Glenn Muffly.)

A. Oh, I would say the principal part concerns the manufacturer's [1222] plans to produce some new model in the future and I am working on things that the public won't see for two to five years—and make searches for the benefit of the manufacturer who is planning such things.

Mr. Cuningham: Well, do these remarks apply to your work for Amana in this case?

A. I have done such work for Amana. Right now it is just in connection with this case.

Mr. Cuningham: And Admiral, too?

A. Yes; and Admiral.

Mr. Cuningham: How long have you been retained by either or both of those, approximately?

A. Well, was first retained by each of them about the time they started in refrigeration, and it's been not on an annual retainer, as I said, but now and then. I have done work for Admiral maybe once or twice a year throughout that time and I was retained by Admdiral on an annual basis at the start when they were planning to get into the business.

Mr. Cuningham: What year was that?

A. I believe that was '44. I would have to——

Mr. Cuningham: Now, could you tell us a little bit about Amana when you were first retained, if you were, by them?

A. That was later, I believe. It was about the time that they brought out or contemplated bringing out a household [1223] refrigerator. They had previously built only freezers. And when they

(Testimony of Glenn Muffly.)

brought out a household refrigerator they consulted me on that.

Mr. Cuningham: About what year was that, if you recall?

A. I wouldn't be sure of that.

Mr. Cuningham: Well, as close as you can guess. It's not a question of being precisely accurate, but within a year or two.

A. Well, it was between '45 and '50; in there.

Mr. Cuningham: It was later than Admiral?

A. Yes, I think it was later than Admiral.

The Court: Mr. Cuningham——

Mr. Cuningham: Thank you.

The Court. ——this is not going to the man's qualifications. Are you satisfied with his qualifications now?

Mr. Cuningham: Not, your Honor, as a patent expert. I think as a refrigeration engineer, yes, but certainly not as a patent expert. He has not admitted and he is not recognized in any of the—in-
cidentally, I noticed we are brothers in the Ohio society. That hasn't anything to do with engineering?

A. The Society of Ohio—Ohio Society of Professional Engineers? No, I am not a member of that.

Mr. Cuningham: You are not a member?

A. I mentioned that. I said the Ohio Society of Professional [1224] Engineers.

Mr. Cuningham: No. I thought you said we were fraternity brothers.

A. No, sir; I am sorry we are not.

(Testimony of Glenn Muffly.)

The Court: Do you advise the clients concerning the reach and scope of patents?

A. Yes. It's usually considering a design that they have and they consider producing this, and I merely produce, dig up for them and list certain patents, suggesting they look at this and that, and point out the ones that they should consider. Usually I give them quite a long list of patents with stars marking a dozen or two, and maybe emphasize by putting two stars on one I think they should study carefully. Sometimes a client negotiates a license or buys the patent or decides not to do it.

The Court: And what do you do besides giving them these references?

A. That's all. I help them sometimes with suggestions on design. But in recent years——

The Court: Do I understand that your main function is to design refrigerators that will be produced in two and three years by the big companies?

A. That's the general idea. I am working on things in the future and on my own inventions and patents, too.

The Court: And in that connection must you know the [1225] state of the art?

A. Oh, yes. Yes.

The Court: And must you also know what has been disclosed in prior patents?

A. Oh, yes. Yes, that's important.

The Court: And you give that type of advice to various refrigerator companies?

(Testimony of Glenn Muffly.)

A. Yes. Yes. But never legal advice because I am not——

Mr. Cuningham: We will admit Mr. Muffly does not practice law without a license—or patent law.

The Witness: No.

Mr. Cuningham: These questions are passed on by the lawyers, the patent people who are qualified, his clients, the scope of a patent, the validity.

The Court: What do you want to qualify Mr. Muffly as, a refrigeration expert and as a man who knows the state of the art at various times?

Mr. Ramsey: As a patent expert. As a refrigeration expert and as a patent expert.

Mr. Cuningham: That is not admitted. As a refrigeration expert, yes; not as a patent expert.

The Court: In connection with what? Do you want him to do what as a patent expert?

Mr. Ramsey: I believe that an expert occupies a little different position than a lawyer. We had in this court one [1226] case where a man is a lawyer and we admitted his qualifications as a patent expert. As I understand it, a patent expert is able to read patents, explain their theory and operation, the state of the prior art, the presence or absence of elements in claims, the meaning of elements as disclosed or not disclosed in the specification, but reach no legal conclusions.

Mr. Cuningham: Now, if your Honor please, I think the construction of the patent is probably that of the lawyer and probably that of the Court and not of——

(Testimony of Glenn Muffly.)

The Court: I assume, Mr. Cuningham, that a great portion of the people who are authorized to practice before the patent office are not lawyers. They are patent agents.

Mr. Cuningham: Now, if your Honor please, I think that's not correct, as I understand it.

The Court: Well, I said many men who are qualified to practice before the patent office are not lawyers.

Mr. Cuningham: Yes, your Honor. But this is not one of them.

The Court: I am going to permit Mr. Muffly to testify as an expert. If it should develop at a later time that he is not as well-qualified as his statement seems to indicate, I will change my ruling. But as of this time I think he is qualified.

Mr. Ramsey: Thank you. [1227]

Q. Mr. Muffly, we were chronologically going through your experience in the field of household refrigeration. Without repeating yourself, you were discussing your employment by Copeland Products, Inc., during the years 1925 to 1929, inclusive?

A. Right.

Q. At that time were you familiar with the practical art; that is, the state of the household refrigeration art in 1925?

A. Yes. I had been watching that industry for some 10 or 15 years, hoping it would become a production job as we in the automotive industry speak.

(Testimony of Glenn Muffly.)

Q. What is a "production job" as you use the word?

A. A thing is not in production unless you make a hundred or a few hundred a day or put it on something resembling a production line, like we built automobiles and like I had built automobiles up to 1925.

Q. Might I qualify on that? How long were you interested in the automotive and engine field and things relating to automobiles prior to 1925?

A. Well, starting in 1906 I had a job as assistant chief engineer of an automobile manufacturer, remained in that industry and finished——

Q. Well, I don't want to develop it. I only want you to explain what production problems you were referring to in the refrigeration field. [1228]

A. Oh, well, production covers a lot of things. It's the synchronizing of materials and the planning of plants and the equipment of machine tools and the bringing of thousands——

Mr. Ramsey: Wait just a moment until the siren quits.

The Court: I suggest that we confine our activities to the refrigeration field. I am not really interested and I don't think the jury is in how expert he is in the field of automotive engineering or production lines. We have got a problem, and since the beginning of this case I have been trying to hold all the attorneys down to the problem with which we are confronted.

Now, Mr. Muffly has been qualified as an expert

(Testimony of Glenn Muffly.)

in the refrigeration field. Ask him some questions about the refrigeration field. Let's get down to business.

Mr. Ramsey: These were only preparatory questions as to the state of the art in '25.

The Court: Ask him the questions.

Mr. Ramsey: Thank you.

Q. How many manufacturers were in production of household refrigeration in 1925, generally speaking?

A. There were only a couple or three that could be called in production. There was Frigidaire and Kelvinator and possibly Servel who had built three or four thousand machines.

Q. Now, what was the state of the household refrigeration in 1925 in gross annual figures? [1229]

A. That year the total production of the industry was something like 75,000 units. They were not necessarily refrigerators but systems that were installed in iceboxes and cabinets that they bought separately sometimes?

Q. Was this or was this not the time of conversion from putting mechanical refrigeration mechanism into iceboxes?

Mr. Cunningham: Objection, your Honor.

Mr. Ramsey: Is that what you were testifying to?

The Court: Objection sustained. This is your witness. You can't lead the witness.

Q. (By Mr. Ramsey): Well, will you please state what refrigeration systems are?

(Testimony of Glenn Muffly.)

A. Yes. The refrigeration system is the condensing unit, the low side, that's the brine tank, evaporator, cooling coil, we have been calling it various names here, and the necessary tubing, the thermostat to control it, and expansion valve to regulate the flow. Those were manufactured and shipped and installed in the field by servicemen. At that time that Copeland was being moved from Flint to Detroit and I started work with that organization, that new organization that had just bought it, there was no cabinet plant in connection with the Copeland in Detroit. There was not a cabinet plant in connection with the new one we were starting in Detroit.

We made the systems and bought the cabinets and [1230] we were just in the throes of putting this thing on the line or on the road, as you might say, getting assembly system together so we could build self-contained refrigerators, cabinet and all, and ship them out in one piece.

Q. So that we understand each other, you used the word "systems" as the refrigeration mechanism not within a cabinet and a "refrigerator" as a self-contained unit, is that correct?

A. Yes. A refrigerator might be merely a cabinet. But as we speak of an electric refrigerator, it is a cabinet and a system and self-contained.

Q. Yes. At that time what percentage of the industry was developing electric or mechanical refrigerators; that is, self-contained units?

A. A very small number of the companies that were trying to get started to make electric refriger-

(Testimony of Glenn Muffly.)

eration had any cabinet facilities. Only Frigidaire, Kelvinator, and Servel of that group.

Q. Now, in connection with your work with Copeland, what did you do with regard to building up electric refrigerators; that is, self-contained units?

A. Yes. One of my first assignments was to look at the refrigerator factories to select one that could make our cabinets, possibly that this company might acquire the company. I made quite an extended trip, came back to Detroit——

Mr. Byron: I think, Mr. Muffly, you can be much briefer [1231] on this. Don't give us a long story; just answer the question.

Mr. Cuninghame: It seems to me one lawyer at a time——

Mr. Byron: All right. I will observe it.

The Court: All right.

The Witness: And we arranged to have cabinets made in Detroit.

Q. (By Mr. Ramsey): Were there any problems involved in question of cost in the refrigeration systems in putting them into self-contained units?

A. Oh, there was a great deal of work involved there because the first systems that were sold were very expensive and no one was making suitable cabinets, and there was a lot of work to be done there and the costs were way out of line, and that was where our automobile crowd came in to cut

(Testimony of Glenn Muffly.)

out some of the costs and get the thing down to a production basis.

Q. Now, discuss it in portion of size; that is, the size of the refrigeration systems.

Mr. Cuningham: Objection, your Honor. I don't know what he means by "it," discuss "it."

The Court: Are you talking about the size of the refrigeration systems?

Mr. Ramsey: Yes.

The Court: All right. Do you know what he is talking about, Mr. Muffly? [1232]

The Witness: Yes, I know what he is talking about.

The Court: Go ahead.

The Witness: The refrigeration industry, of course, had been built up——

Mr. Cuningham: Your Honor, I object. Let's have an answer to the question, "the size of the systems."

The Court: All right. Go ahead.

The Witness: ——by making large-size ammonia compressors and the refrigeration art started in the large machine and grew into the smaller field. Early in this century they were making small machines two or three horsepower or five horsepower. They thought that was very small. By the time I entered the household refrigerator field quarter horsepower was a small machine and still is a small machine, somewhat smaller than that in the household refrigerator usually.

Q. (By Mr. Ramsey): Now, discuss the prob-

(Testimony of Glenn Muffly.)

lem at the time that you entered the field with regard to the service life of such equipment.

A. Of household?

Q. In the household refrigerator field service life.

The Court: Service life.

Mr. Ramsey: Service life, yes.

The Witness: Service problems?

Q. Service problems.

A. The early refrigerators had quite a lot of trouble with [1233] shaft seals and belts, and they were always losing their gas. The serviceman had to go out and put in some more refrigerant. Service was a serious problem. At that time most of the refrigerators were of the open type belt-drive, with the trend soon developed in the direction of sealed units, which put the motor and compressor inside of the sealed housing and got rid of some service problems.

Q. Was there quite a bit of development prior to that time in the field of commercial refrigeration?

A. Yes. The commercial refrigeration is that intermediate step between the big, old, cold-storage and ice plants and the electric refrigerator of today. The first electric refrigerators were commercial machines. They went into butcher shops and florists and they became meat counters and ice cream cabinets and soda fountains and cooling systems of various types.

The bulk of the production before household refrigerators got under way was in the intermediate commercial field of small machines cooling such

(Testimony of Glenn Muffly.)

things as ice cream cabinets, soda fountains, meat counters, and commercial cabinets, some of them with front doors; just large refrigerators, some of them multiple-compartment refrigerators such as a meat counter that has, say, a glass top and sliding doors.

Mr. Cuninghame: If your Honor please, I think the question has been answered. I object to any further answer. [1234]

The Court: Well, I think, Mr. Muffly, that all of the attorneys have joined in asking you to make your answers a little more concise and to the point and I think, Mr. Ramsey, that your question should be more direct. You ask a witness to discuss something and the witness doesn't know the outer limits of what he is supposed to discuss. So please ask him specific questions. [1235]

Mr. Ramsey: Thank you; I will try to do that.

Q. You spoke of counters and display cases. Were those in single compartment or multiple compartment?

A. Both were made, both types.

Q. Will you describe them, please?

Mr. Cuninghame: Oh, if your Honor please, I object. I think he ought to be more specific than that.

The Court: I think it is specific enough; otherwise, it would be leading, so answer the question.

The Witness: The single ones were usually a counter showcase height, say four feet or so, and the upper part of it would have a glass front, prob-

(Testimony of Glenn Muffly.)

ably inclined, with sliding doors. That would have a tray or pan on which the product was set, and below that were the coils, cooling coils, the evaporator, and sometimes coils at the peak where the inclined front and the back and the top meet.

In the lower compartment, sometimes refrigerated and sometimes not, sometimes it was refrigerated to a lower temperature than the upper compartment, and one end would be separated off and cooled to a low temperature, and the other end of the lower space would be used for the condensing unit, the machinery compartment.

Q. Do I understand that is a multi-compartment, multi-temperature? A. Yes. [1236]

Q. Would you indicate the range of the temperatures in the two compartments?

A. The upper compartment would be anything from 35 to 50, depending on the product that was to be stored there, and the lower compartment would be below that and sometimes as low as 20 above, or if they stored ice cream it would go to zero or a little below.

Q. What sort of products were kept in the cooler of those two compartments, for example?

A. Well, ice cream was one that required a low temperature.

Q. Now what is the warmer of the two?

A. That would be meats that were not frozen. It would be general produce. The meats occupied an important position because they did not always refrigerate the leafy vegetables.

(Testimony of Glenn Muffly.)

Q. Was any of it made to control humidity, in most cases?

A. Yes, in the case of leafy vegetables it was important to have high humidity in that warmer compartment.

Q. In the state of the art at that time, and discussing now "know-how," do you know what the technical knowledge of the art was at that time?

A. Yes.

Q. What was the condition of that technical art with regard to the maintenance of temperatures?

Mr. Cuningham: Objection.

The Court: On what basis? [1237]

Mr. Cuningham: Your Honor, what was the nature of the technical art at that time, on the basis that it is too general, impossible for any individual to answer, so far as I know. I do not think Mr. Muffly is that omnipotent.

The Court: Are you objecting that they did not know as to the publicly-known state of the art?

Mr. Cuningham: Oh, no, sir; not at all. That never had occurred to me.

The Court: Well, as I understand it, Mr. Muffly has been qualified as an expert. He collects all these patents. He was in the field, and you are now talking about the year 1925, are you not?

Mr. Ramsey: That is correct.

The Court: That was the year he got into the field?

Mr. Ramsey: That is correct.

The Court: He has testified that for some time prior to that year he made an examination of the

(Testimony of Glenn Muffly.)

field to determine whether production lines could be installed.

Mr. Ramsey: That is correct.

The Court: I think that the witness can answer the question.

Mr. Cuninghame: May we have the question?

(Pending question read.)

The Witness: There had been thermostats of many types in existence for many years. There were many to select from. [1238] They were too expensive. There were plenty of them.

Q. (By Mr. Ramsey): The question is the maintenance of temperatures.

A. Well, a thermostat is a device which stops and starts or turns it off and on and controls your temperature so that refrigerating systems had been controlled by thermostats for twenty years prior to my entry into the art.

Q. Is there any limit as to what range those thermostats could be set for?

A. No, I have had thermostats 40 below zero and hundreds of degrees above zero.

Q. Now, speaking of maintenance of temperatures in the refrigeration art, did the refrigeration art have the know-how at that stage, in 1925, to maintain temperatures?

Mr. Cuninghame: Your Honor, objected to as calling for a conclusion.

The Court: He is an expert. That is the exception. He may ask the question. Go ahead.

(Testimony of Glenn Muffly.)

The Witness: I want to add a little to the question.

Mr. Cuningham: Objection.

The Court: Do not add anything to the question.

Mr. Ramsey: Would you like to have the question read?

A. The point is, it sounds too much like the one before. You are asking me about control of temperature.

Q. Yes. [1239]

Mr. Cuningham: May we have it read?

The Court: Are you not thinking of humid temperature, Mr. Ramsey?

Mr. Ramsey: Of what, your Honor?

The Court: You had talked about humidity, and then you went to control of temperatures without permitting the witness to answer the question before. Did you intend to do that?

Mr. Ramsey: Strike the question and ask with regard to combination, then, of the humidity and temperature.

The Witness: Oh, yes, yes; both were under control, and I would date that from the time that Willis Carrier took out his first patents, some of his first patents on humidity and temperature control which were in about 1910 to 1912.

Q. (By Mr. Cunningham): Are those refrigeration, the Carrier patents?

The Witness: Air conditioning.

Mr. Cuningham: Air conditioning. I move to strike as not responsive.

The Court: The motion will be allowed. This

(Testimony of Glenn Muffly.)

testimony may be admissable, but it not responsive.

Q. (By Mr. Ramsey): Then may I ask before the Court rules, are the air conditioning arts and refrigeration arts development arts?

A. Very close; they are inseparable.

The Court: Do they operate on the same [1240] theory?

The Witness: Yes.

Mr. Cuningham: Your Honor, I think we are now in the field of air conditioning. They are totally separate. This is not the same art as the refrigeration art.

Mr. Ramsey: The witness has testified to the contrary, Mr. Cuningham.

The Court: I think that is true. The motion will be disallowed. Go ahead.

Q. (By Mr. Ramsey): Now, considering that as the status of the practical art, are you familiar with the patent art as it existed in 1925?

A. Yes.

Q. Is that through this very elaborate system of cross-references that you maintain?

A. Both that and my personal experience in the use of it.

Q. You mentioned a number of about a hundred thousand patents in your present file, or upwards of that. What percentage of those patents would have been issued prior to 1925?

A. Less than half prior to 1925; probably half prior to 1930, in 1929 or '30.

Q. Something less than half?

(Testimony of Glenn Muffly.)

A. Something less than half prior to 1925, yes.

Q. Have you made an examination into the patent art to determine whether or not combined freezers and refrigerators [1241] were old in the patent art? A. They were.

Q. Co-counsel has suggested that that might not be a clear definition or question, and what I meant to ask you, Mr. Muffly, were household refrigerators having the freezing compartment and the cooling refrigerant compartment old in the art in 1925 as shown in these patents? A. Yes.

The Court: This is a good time to stop. Ladies and gentlemen, we are going to give you an hour and a half for lunch today. We will start in at 2:00 o'clock, and then we will go to about 4:30. You are now excused until 2:00 o'clock.

(Thereupon the jury retired for the noon recess at 12:30 o'clock, and the following proceedings were had after the jury had retired:)

The Court: Mr. Muffly, I know that you are a man of great experience and have had a lot of different experiences, and you can tell us a lot of interesting things, but we are here involved in a specific problem, and I wish that you would confine your answers to the questions that are propounded to you.

I think this remark I am making to you is particularly apropos to the questions Mr. Cuninghame might ask you. [1242] When Mr. Cuninghame asks a question, answer his question, and the same thing

(Testimony of Glenn Muffly.)

is true with Mr. Ramsey, although I do suggest, Mr. Ramsey, that you do not ask these shotgun questions. They are the type of questions that are difficult for most witnesses, particularly Mr. Muffly with his wealth of experience, so confine it to the questions you wish to ask.

Mr. Ramsey: Thank you, your Honor.

(Thereupon the trial was recessed until 2:00 o'clock p.m. of the same day.) [1243]

Afternoon Session

(At 2:00 o'clock p.m., the trial herein was resumed, pursuant to recess, and the following proceedings were had herein:)

GLENN MUFFLY

thereupon resumed the stand as a witness in behalf of Defendants and was further examined and testified as follows:

Direct Examination (Continued)

By Mr. Ramsey:

Q. At the noon recess we were talking about the structure of these display cases that you say that were prior to 1925. Do you remember the details of those cases? A. In general.

Q. May I ask you whether—consider the following items. Were they inclosed in the cabinet?

A. Yes.

(Testimony of Glenn Muffly.)

Q. Did it have a cooling compartment?

A. Yes.

Q. Did it have a freezing compartment?

A. Yes.

Q. Did it have an insulation between the freezing and the cooling compartments? A. Yes.

Q. Did it have air in the cooling [1244] compartment? A. Yes.

Q. Was that air held at an average stable temperature, held at about 40 degrees Fahrenheit?

A. Yes.

Q. Held with a humidity relative value of at least 132 degrees F.? A. Yes.

Q. Did it have air in the freezing compartment?

A. Yes.

Q. Was that air held at a temperature well below 32 degrees F? A. Yes.

Q. Did it have a cooling coil in the cooling compartment? A. Yes.

Q. Did it have a freezing coil in the freezing compartment? A. Yes.

Q. Did it have a volatile refrigerant?

A. Yes.

Q. Did it have a single motor compressor condenser system? A. Yes.

Q. Did it have a thermostat in it? A. Yes.

Q. Was that thermostat responsive to the temperature of one of the compartments controlling the operation of said motor compressor condenser [1245] unit? A. It was.

The Court: I did not hear that last answer.

(Testimony of Glenn Muffly.)

The Witness: I said it was.

Q. (By Mr. Ramsey): Do you remember the names of the make or makes of those cabinets?

A. There were Nizer, Frigidaire, Liquid Carbonic, McCray, a number of manufacturers of cabinets and systems.

Q. Was a cabinet a refrigerator? A. Yes.

The Court: Is it your testimony that all of these various manufacturers had refrigerators containing all these elements?

A. There were a number who sold them. It was not always the same manufacturer who made the cabinet and made the system.

The Court: Assume that they were assembled.

The Witness: Yes; one bought a system from Frigidaire, say, put it into a McCray cabinet or a Liquid Carbonic.

The Court: Then the cabinet, as assembled, had all these elements in it?

The Witness: Had them all in, and it was sold as a unit.

The Court: That is all I wanted to know.

Q. (By Mr. Ramsey): Where did you see these cabinets?

A. Saw them in places of business in use. [1246]

Q. For example?

A. In grocers, butcher shops, in places that dealt in foods, restaurants, soda fountains, drug-stores, commercial use, commercial places of business.

(Testimony of Glenn Muffly.)

Q. In what cities did you see them in?

A. Largely around Chicago and in the Midwest.

Q. You were there at that time? A. Yes.

Q. Going to your experience from 1925 to 1929 when you were at Copeland. A. Yes.

Q. While you were there, what efforts did you make, if any, to make a household refrigerator having those elements?

A. I started early in 1926 to build such a refrigerator, and did build one model, and due to the fact that the management did not think they could sell so expensive a refrigerator I had to shelve that and concentrate on the night-and-day job of designing one they did produce and put on the market the 1st of July, 1926.

Q. Was there only one made during your employment in Copeland?

A. No, that was the first one. After this Copeland model that was put into production had gotten smoothly running into production, I went back to the development of a two-temperature cabinet and built three or four more. [1247]

Q. Did each of those include the elements that I noted in connection with the display cases?

A. A couple of them did.

Q. When was the last one made?

A. In 1929.

Q. What time in 1929?

A. Finished in the summer of 1929.

Q. Let us consider next the file wrapper of the original patent that is Defendants' Exhibit——

(Testimony of Glenn Muffly.)

The Court: You mean the original Bronaugh-Potter patent?

Mr. Ramsey: Of the original, yes, Defendants' Exhibit 101. Would you please hand that to the witness?

Mr. Cuningham: I object.

The Court: On what ground, Mr. Cuningham?

Mr. Cuningham: Well, if your Honor please, I can see no purpose in going into this file wrapper. It is complete in and of itself. It proves by itself anything that can ever be said about it. It contains the arguments of the Bronaugh and Potter attorneys. It contains the actions of the skilled experts in the Patent Office. Certainly there is nothing that is needed from this. Whatever Mr. Muffly, who had nothing whatsoever to do with it and who has not been qualified to have anything to do with it, he could add nothing. It would be much more relevant to have some witness here from the Patent Office, but the whole thing is all [1248] in, in black and white. You cannot change it. It is no more, no less, and there seems no reason to me to have any questions about it.

The Court: Mr. Cuningham, we permitted Mr. Parker to discuss the reach of the claims and to describe the patent in the reissue patent, and that is one of the things that is commonly done in patent cases, is to have a patent expert explain the technical aspects of the patent and the history thereof.

Mr. Cuningham: I think I did not make myself clear, your Honor. This is simply the papers back

(Testimony of Glenn Muffly.)

and forth in the Patent Office, and now I think they are complete and speak for themselves, and there is nothing——

The Court: You might be right, but Mr. Ramsey has not asked a question yet.

Mr. Ramsey: I wonder whether we might have the large exhibit on the smaller easel, 16-A, before the jury, and whether we might have the blackboard so that the witness can show the jury exactly the purport of his testimony that is to follow.

(Items referred to brought before the jury.)

Q. (By Mr. Ramsey): Mr. Muffly, Exhibit 16-A is a reproduction and a large reproduction of Patent No. 2,056,165, the drawing of it, and also of the patent in suit. Do you understand the operation of that refrigerator? [1249]

A. I do.

Q. I wonder if you would step to the blackboard and would show how the structure operates because sometimes a drawing is a little difficult to read.

(Witness leaves witness stand and steps to the blackboard.)

The Witness: This is the front view of the refrigerator sawed off so we can look into the compartments. This is the view you would get looking at the same refrigerator from the right-hand side, and this line that runs down through here, broken line, shows there the refrigerator was sawed off to make this view.

(Testimony of Glenn Muffly.)

Mr. Byron: Figures 1 and 2 are you talking about?

The Witness: Figure 2, at the right the line, broken line 1-1 which is the section to show where Figure 1 was taken as if we stood here and looked at this refrigerator sawed off on that line. Most of what is to be seen could be seen in Figure 1, the front view, but since some of these parts are small and they are partially hidden and there is dotted lines, insulation, I will sketch roughly (sketching on blackboard) the Figure 1 and add the parts as I come to them.

This rectangle is the outside of the cabinet, and in the lower compartment you see a horizontal line below the insulation shown in section, and down here is [1250] the machinery compartment. In that compartment we have a compressor 15. Now, I am not going to reproduce the drawing. I am just going to make an outline. (Draws on blackboard). That is the compressor 15. The compressor is simply a pump and pumps gas, a vapor. That pump discharges into the condenser which we see in the patent drawing behind the compressor, but I am putting the condenser represented merely by some loops of tubing, and I am putting the condenser to the right of the compressor so we can see it, and that is numbered 18.

Now, the condenser at its bottom shows a tube and a dotted line which represents a tube that runs into this cylindrical receiver which is merely a drum, a container to hold the—that runs into the

(Testimony of Glenn Muffly.)

top of the container, and from the bottom of that container there is another pipe running from the receiver 17, there is a tube which runs up into the refrigerator. Now the main receiver is self-explanatory. It receives the condensed refrigerant from the condenser. Our compressor pumps the gas under high pressure into the condenser tubing, and due to the high pressure and the fact that air is blown across it this liquefies, and liquid refrigerant runs over into this drum 17 that we call a receiver (drawing on blackboard).

Now, the refrigerator proper has insulated walls, and within those insulated walls are two compartments bounded [1251] by what we call a liner, the metallic liner, usually sheet steel, porcelain enamel especially in any refrigerator. [1252]

This tube that leads from the bottom of the receiver 17 is spoken of as the liquid line because it carries liquid refrigerant up through the insulation to a small recess in the insulation. In that recess there is a device marked 23, and that is called an expansion valve. I'll put my numeral 23 where it's not in the way because from this expansion valve 23 there is a tube that enters this compartment (indicating) and drops down.

I have put the expansion valve in the right-hand side merely so we can see it in this view. In this view (indicating) it says "23" and points but you can't see what it points to. In this view you can see the expansion valve 23 and there is a little

(Testimony of Glenn Muffly.)

recess to hold it. That recess is behind the brine tank, this assembly (indicating), so you couldn't see it in this view, so I am putting it from here (indicating) over there (indicating) so you can see it.

From this expansion valve a pipe comes over as shown by the dotted line (indicating), down across and back and forth in that manner.

Now, in tracing this system thus far we have compressed the refrigerant gas in the condenser 18. That has liquefied, turned the gas into liquid by condensing it in what we call the condenser. We have accumulated, just saved up some of the liquid in the accumulator or receiver.

We take from the bottom of this a small [1253] tube carrying liquid, that liquid is filtered to the high compression of the condenser and the liquid goes up the compression valve at which point the pressure is changed to about five pounds per square inch, whereas it was on the order of 125 pounds per square inch in the condenser, the receiver, and the liquid line.

So now we have refrigerant liquid at about five pounds gauge pressure flowing into this tube which surrounds a small chamber that is marked 12, and that is the freezer.

In addition there are some still smaller sleeves to receive ice trays and those are numbered 19. Now, this coil that I have just drawn—expansion coil—is No. 22. That is the freezing refrigerant coil or evaporator or expander—it's called various things. This coil is within a brine tank so we have

(Testimony of Glenn Muffly.)

a wall here that is a metal wall and in and around the tube and around these sleeves, including the 12, which is the largest one, there is brine.

Now, the compartment at the left of this compartment 13 is called a frozen food storage compartment or it's referred to as being around 20 degrees. That is cooled by contact of air with this brine tank. The brine within the tank is cooled by the coil 22, in which the refrigerant is evaporating, so that we have at the outlet of this a mixture of vapor and liquid refrigerant.

I will come back to this expansion valve [1254] and how that can be adjusted to vary the operation.

Now, this tube that leaves the freezing coil 22 goes up the back of the box or through the insulation and reaches this point up here behind that control 31, but it doesn't connect with the control in any way. It comes up through the insulation and connects directly across through this coil 25, as we see above. So we will bring this tube in to the upper compartment. That is identified as 14. And we will connect it to this coil 25.

Now, the coil 25 is connected at its outlet back to the inlet side of the compressor. In the drawing it shows it coming down through the insulation at the right-hand side. We have to follow the arrow-heads and trace it across over to the compressor. Since it will be easier to trace the path of this I will bring that tube down the left-hand side.

Now, understand, it makes no difference where we take it to get it out of the way. That is merely

(Testimony of Glenn Muffly.)

the conduit that brings the vapor back to the compressor to be recompressed, and I am bringing it in the top of the compressor which is an ordinary normal type of compressor rather than the rather peculiar shaped one that is in the drawing. But this compressor is, as I say, a pump. It has a piston. It could have a rotary piston, but usually is the common reciprocating-type piston. [1255]

That piston on its downstroke draws gas from this suction line and on its upstroke it pushes that gas under high pressure over into the condenser tube. This arrow is to show the direction of flow and I will put an arrow on the suction tube that leads from the evaporator or through the coil 25 back to the suction side of the compressor.

Now, that completes the refrigerant circuit of which the high pressure or condenser condensing phase starts at the outlet of it as the pressure goes through the condenser—no—through the expansion valve, and at that point we allow the refrigerant to expand. The expansion valve is a pressure-reducing valve that opens whenever the pressure in this coil falls below, say, five pounds, and it closes when it gets above it and maintains a standard operating condition pressure within that coil. That valve is adjustable so that we can change that pressure to suit the operation we want.

Now, the 100-pound pressure—or, 125-pound or so pressure refrigerant liquid reaches the valve and leaves it at five or ten pounds, whatever we set that to. So having taken the pressure off of this liquid,

(Testimony of Glenn Muffly.)

it is free to evaporate, hence we call this an evaporator coil. It expands in evaporation so we sometimes call it an expansion coil. In evaporating it absorbs heat from the brine around the tube and from these sleeves in which you put the ice trays and this larger sleeve, that is called the [1256] freezer.

If that brine has absorbed all of the latent heat of this liquid refrigerant and converted it all into vapor, we would have vapor passing up through this tube and into the top of the expansion coil 25 or cooling coil in the warmer compartment.

Q. (By Mr. Ramsey): Pardon me, Mr. Muffly.

A. Yes.

Q. Looking at 16-A, does it go into the top or does it go into the bottom of the coil 25?

A. It goes into the top, I believe. Wait a minute.

Q. I don't know if it makes any difference.

A. No, it doesn't make any difference, and it does go in the bottom. I will make it go in the bottom so it will be more—it's a matter of designers' choice. It could be done either way. We had it going in the bottom here and here in the top—or in the bottom up here. Thank you.

Q. I may have interrupted your train of thought. You were saying what the refrigerant does in the two coils.

A. Yes. Assuming first that the refrigerant had evaporated entirely in the coil 22, then we would have cold refrigerant vapor in this tube. That cold

(Testimony of Glenn Muffly.)

vapor would, of course, cool this coil but we would have used most of our refrigerating effect up down here in this brine tank, and the vapor would warm up a bit passing through this compartment in which the air is supposed to be about 40 degrees. [1257]

Mr. Byron: Will you please give a number, Mr. Muffly?

The Witness: In compartment 14. Pardon me.

Q. (By Mr. Ramsey): In the coil?

A. And the coil 25, this warms up approaching the temperature of the air in the compartment 14, and this vapor then flows back to the compressor at a somewhat warmer temperature than it had in the coil, but still on the cool side. But when it is compressed the act of compressing makes that vapor hot as well as under high pressure. So we discharge hot high-pressure vapor into the top of the condenser 18.

Q. That completes the cycle?

A. That completes the cycle.

I haven't put the thermostat in here. Now, that is numbered 31. I didn't draw the motor down here that drives the compressor, but you can assume there is a motor.

Q. What number is given to it?

A. The motor is numbered 16. We can——

Q. Don't bother.

A. Over here there would be a belt to drive the compressor 15 as we see in Figure 1 of the patent drawing. We see the motor 16 at the right and a belt drive over to a pulley behind the compressor 15.

(Testimony of Glenn Muffly.)

Now, to control that motor I had better indicate the motor. There are two wires, of course, come to it from your power source, and one of those wires has to be connected [1258] up and through this thermostat which is really a switch. This stops and starts this motor. So in the thermostat 31 it gets down to the temperature that is desired of the air in the compartment 14, this thermostat opens a switch and stops the motor so the compressor stops and the idle cycle of gradually warming up starts.

Q. Is this a thermostat like a thermostat in a furnace as in a person's home?

A. Yes, that is the same thing except it operates at a different temperature range. If you merely adjust this high enough and then reverse the switch so it would turn on when you get cold instead of turning on when you get warm it would be a suitable thermostat to put on a wall of the house to run the oil burner. This is a cooling thermostat, and the difference between this and a heating thermostat is merely the range of temperature and whether it opens or closes.

Q. I believe that you first made an assumption that all of the liquid was evaporated in the coil 22 and only vapor passed from 22 to 25. Was that—

A. Yes. Yes. And that would be the condition when this system was started up warm, the first time you started it it would no doubt do that and the brine being warm and this compartment being warm, the refrigerant would evaporate very rapidly in the coil 22, and there would be no liquid flow

(Testimony of Glenn Muffly.)

through to cool the coil 25, and it would have only the [1259] cooling effect of a little vapor. That wouldn't be enough so in actual operation there must be liquid remaining in the tube—a mixture of liquid and vapor passing up and into the coil.

Mr. Byron: What is the number of that coil?

The Witness: 25. The liquid would be flowing upwardly from the coil 22 to the coil 25, so some of the liquid would have to evaporate up here within the coil—that is within the compartment 14. And that is necessary in order to have enough cooling effect to cool the compartment 14 because——

Q. (By Mr. Ramsey): May I interrupt you? Now, explaining that portion of the patent in suit appearing in Column 5, Lines 7 to 12, which reads: “The refrigerant will be completely vaporized in coil 22 until the temperatures of the compartments near said minima, when some of the refrigerant will reach the coil 25 in liquid form, and, by vaporizing therein, will cool compartment 14.” [1260]

A. Correct, yes. I am reading one which is said in almost the same way.

Now, I was just starting to explain that during that period when all of the evaporation occurred in the coil 22 we have used up practically all of the cooling effect of the refrigerant which is very largely latent heat. It is called evaporative refrigerant. It does its cooling by the act of evaporating, thereby taking up heat. It is that latent heat, the evaporation of the refrigerant which boils at 8 degrees. It boils at a very low temperature. Don't let

(Testimony of Glenn Muffly.)

the word "boil" lead you astray. It is boiling at about 8 degrees below zero, and until this gets cooled down, the brine tank containing the coil 22 is cooled down to a point, that is, not all of the liquid must evaporate in that coil, we will have only vapor, and as long as this is pulled down then we will have liquid flowing through, through coil 25 to evaporate there, and the assumption is that it gets all evaporated, it leaves gas down from the compressor because we want only vapor going back through the compressor.

Now, the temperature of this coil 22 is very positively tied to the pressure at which the refrigerant boils. It happens that the refrigerant in common use, most of the refrigerators on the market use a refrigerant called F-12 for short. That refrigerant boils at about 20 or 22 [1261] degrees below zero, if you had it at atmosphere, and at this particular pressure it boils at 8 degrees below zero, so this vapor and liquid mixture, as long as there is vapor located in that tube the temperature of that coil will be that 8 degrees below zero.

Q. Might I ask you, Mr. Muffly, are you familiar with the refrigerant system in the Anderson patent? A. Yes.

Q. I wonder if we could have the Anderson patent put up there.

(Document presented.)

Without going through a long explanation of the refrigeration circuit and the effects and limiting

(Testimony of Glenn Muffly.)

factors, would you or would you not say that the same system is shown in Anderson?

A. Yes, that is the same system.

Q. Is that 16-B you are pointing at now? That is on the top, I believe.

A. Exhibit 16-B.

Q. Does that system, as exemplified in Anderson, have the parts possibly shown in different conformation?

A. Yes, I can trace it very quickly. The expansion valve 33 expands into the freezing coil 34. It goes up into the coil 40 which is in the cooling compartment, and from that it comes back. [1262]

Q. Is the cooling compartment 6?

A. Cooling compartment 6. It passed first through the coil that is in the freezing compartment 7 and went up to the upper compartment and through the expansion coil 40 which is on the wall on the inside of the compartment 6, thereby cooling that compartment, and at its outlet end it goes down to the compressor which is back behind the motor 25. Again, it goes over through the expansion valve.

Q. That is completing the circuit?

A. Completing the circuit. The expansion valve 33 corresponds to the expansion valve 23 of the patent in suit. The evaporator coil 34 corresponds to the evaporator coil 22 of the patent in suit. The cooling coil 40 corresponds to the cooling coil 25 in the patent in suit. The compressor 20 corresponds—

(Testimony of Glenn Muffly.)

which is behind the motor 25—corresponds to the compressor 15 of the patent in suit, which has the motor shown off to the side as 16, and the thermostat 31 is in the Anderson patent, Exhibit 16-B, in the specification and is located on the vertical dividing member between the two front doors, so it is in the compartment 6, and it stops and starts the motor 25 just as the thermostat 31 stops and starts the motor 16 that drives the compressor 15 in the Potter patent.

Q. Taking up this question of the necessity of having liquid refrigerant in the cooling coils of these two, does [1263] or does not the same situation hold? A. In Anderson as in Potter?

Q. As in Potter.

A. The same situation, there must be liquid refrigerant flow entirely through the coil 34 and up through coil 40 in order to cool the compartment 6 of Anderson.

Q. Thank you.

I wonder with that explanation and that setting we might go to the file wrapper. Why don't you sit down, Mr. Muffly. We have this before us.

(Witness returns to the witness stand.)

The Court: May I ask what was the purpose of this whole description, just to describe the system?

Mr. Ramsey: Partly that, if the Court please, just so that the jury, being not refrigerating engineers, would know exactly how it works, but the

(Testimony of Glenn Muffly.)

particular point that is to be emphasized is that, as we find in this file wrapper, Anderson was the principal reference against the allowance of the claims and Anderson—I mean Potter—through his attorney represented to the Examiner that Potter differed from Anderson in that Anderson had liquid refrigerant in the coil, in the cooling coil, and that made it different, and secured the allowance of the claims over the representation, while even in his own patent right in the body of his specification he contends otherwise, and we will point that [1264] out in the file wrapper.

The Court: Very well; give Mr. Muffly the file wrapper.

Q. (By Mr. Ramsey): Would you explain to the jury the nature of a file wrapper?

A. A file wrapper is really the file and contents, and it acquired that name because it is done up in a package and called a file wrapper. It really is all the correspondence starting with the application of the inventor for the patent. He has to furnish a drawing and a description called a specification and certain paragraphs that are called claims to point out what he claims is his invention. This is the start of the file wrapper.

The next paper is usually an action from the Patent Office probably rejecting some or all of the claims, and so on, the correspondence goes back and forth between the attorneys and the Examiner in the Patent Office until some conclusion is reached; he gets the patent or he doesn't, and after the pat-

(Testimony of Glenn Muffly.)

ent issues this becomes public. Anyone may obtain a copy or go to the Patent Office and read it. Until the patent issues, this is secret, this is secret in the Patent Office.

Q. In other words, that is the history of the proceedings in the Patent Office?

A. Correct. [1265]

Q. I wonder if the witness might be handed Defendants' Exhibit 114-M which is a soft paper copy of the original patent. You will remember that as a soft paper copy.

A. I think I have one here. It is 2,056,165.

Mr. Ramsey: That is correct.

The Court: Here is a soft copy.

Mr. Ramsey: The other was marked, and I have a definite reason why I want to show that exact one, show the marked one if we have it available. Let us pass it, and we will come back when that copy is found.

Q. Mr. Muffly, have you read the claims in the patent in suit? A. I have.

Q. Have you read the specifications of both the original and the reissue patent in suit?

A. I have.

Q. You have Defendants' Exhibit 114-M?

A. 114-M is a soft copy to a reissue patent, and I am looking at the file wrapper of the original patent.

Q. Would the same specification hold?

Mr. Cuningham: If your Honor please, I ob-

(Testimony of Glenn Muffly.)

ject. What does that mean, with the same specification—are they the same?

Q. (By Mr. Ramsey): Are they the same?

The Witness: The two specifications are the same, with [1266] minute differences, the original patent and the reissue.

Q. What does the Exhibit 114-M show with regard to additions to the specifications at some time represented by the file wrapper?

A. This shows—which is also in the file wrapper—that a considerable part, over half I would say or approximately half of the specification was added by insertion on January 29, 1934, which is nearly three years later, two-plus years later than the filing.

Q. What did that replace, about how many lines?

A. That replaced the words which were canceled. I will read the canceled words.

Q. Would you tell us? That would give us the picture.

A. “The relation of the various compartments may, of course, be varied. It is important only that the food storage or cooling compartment be thermally insulated as fully as practical from the freezing and cold storage compartments in order that there may be no transfer of heat between same other than that which passes through the expansion line itself.”

Mr. Cuningham: May I ask from where he is reading? I have not found it.

(Testimony of Glenn Muffly.)

The Court: I have not found it either. Are you reading from the reissue?

The Witness: I am reading from the words that were [1267] canceled in the original, but it is not in the printed copy here. It is in this file wrapper here.

Mr. Cuningham: Where?

The Court: What page?

Mr. Cheatham: Your Honor, if you please, you will remember there was quite a bit of discussion about this Exhibit 114-M, and this is what we were handed, and I see other things in the exhibit which is officially before the Court. I would like to see what 114 is officially.

The Court: What page of the file wrapper?

Mr. Ramsey: 48.

Mr. Cuningham: If your Honor please, I see this here, this copy, this original marked exhibit, that did not appear in the copy furnished us by the defendants, quite a lot of things.

Mr. Ramsey: What?

The Court: What?

Mr. Cuningham: Well, this stapled on here, pasted on here, the markings do not seem to me to correspond, and there is a legend in the margin. May we have a look at this before any further questions are asked?

The Court: You may look at it.

Mr. Ramsey: The original exhibits have been in the courtroom several weeks.

The Witness: I believe I have found the—Page

(Testimony of Glenn Muffly.)

48 of [1268] file wrapper is what we are looking for.

The Court: Is that the portion that was deleted?

The Witness: That is mostly a portion added. First some lines are canceled, and then a lot is added, and an addition, the addition goes from Page 48——

Q. (By Mr. Ramsey): The original specification and the part deleted is shown in the file wrapper, Page 6?

A. Yes; here is the part deleted on the relation of the various compartments down to compartments 12 and 13, respectively. It is on Lines 18 to 24 of Page 6 of the file wrapper.

Mr. Cuninghame: We have found it, your Honor.

The Court: Do you see it?

Mr. Cuninghame: Yes, but it is not in the exhibit as given us, copy of the exhibit. I have not checked the rest of those.

Mr. Ramsey: If counsel will remember, we could not find that, and you asked me what 114-M is, and I said it is only a soft paper copy and that we marked the portion that was deleted and the portion that was added, and I said that the part that was deleted was applied over it, and there was a mark on the margin showing the substitution, showing what was substituted for what.

Mr. Cheatham: I would not like to argue, but I do not remember that. [1269]

No. 15057

United States
Court of Appeals
for the Ninth Circuit

MOIST COLD REFRIGERATOR CO., INC., a
Corporation,

Appellant,

vs.

LOU JOHNSON CO., INC., a Corporation;
MEIER & FRANK COMPANY, INC., a Corporation;
ADMIRAL CORPORATION, a Corporation, and AMANA REFRIGERATION, INC., a Corporation,

Appellees.

Transcript of Record

In Four Volumes JUL -6 1956

Volume IV
(Pages 1205 to 1573)

Appeal from the United States District Court for the
District of Oregon

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(Testimony of Glenn Muffly.)

The Court: Very well. In other words, the portion that was deleted appearing on Page 6 of the file wrapper of the original patent is shown on a soft copy of 114-M.

Mr. Ramsey: That is correct.

The Court: All right. Let us start over again because no one remembers what you did.

Q. (By Mr. Ramsey): Would you identify on the soft paper copy that portion that was added, by column and by line?

Mr. Cuningham: Oh, if your Honor please, I object. This is all in the record. It is in that file wrapper. That is in evidence here. It can serve no purpose to duplicate it over and over again this way.

The Court: All right; go ahead. I do not think that the jury wants to go through the entire file wrapper to find out these various things. This is the simplest and quickest way to handle it.

The Witness: The typewritten insert that is pasted at the left of Column 3 in the soft paper copy of Reissue Patent 23058, Defendants' Exhibit 114-M, coincides with the wording which appears in the file wrapper record on Page 6 starting at Line 18 and finishing in Line 24.

Q. (By Mr. Ramsey): Would you identify in the reissue patent the part that was added?

A. The part that was added by the amendment filed July 29, 1934, in the file wrapper starts on Page 48, which is the [1270] longest and the last paragraph on Page 48, continues through Pages 49,

(Testimony of Glenn Muffly.)

50, 51, and ends on Page 52 of the file wrapper in the sixth line from the top. [1271]

Q. (By Mr. Ramsey): Now, will you locate that on the patent in suit?

A. Pardon me. There is an additional—that isn't quite all of it. Another part below that is added in this amendment. There are seven lines added to the specification on page 5 of the specification as filed.

Q. Will you identify this added material in the patent in suit, the copy in 114-M?

A. In the patent in suit, 114-M, the reissue patent, 23,058, the insertion made starts in Column 3, Line 46, goes through that column, through all of Column 4 and through Column 5, down to and including Line 52, making a bit more than a full page of printed specification.

Q. You are familiar with the terminology of the claim of the patent in suit? A. Yes.

Q. And the terminology—words—in the specification? A. Yes.

Q. Now, I want to ask you about some of the words that appear in the claims of the patent in suit. A. Yes.

Q. Do you find a description of "air in the cooling compartment" in the specification?

A. No.

Q. Do you find a definition in the specification of "a maintained substantial temperature of air"? [1272]

A. Wait a minute. Now, we are referring to the specification as filed?

(Testimony of Glenn Muffly.)

Q. Read the words of the claim and I am asking you whether you find those words in the specification.

The Court: Are you talking about the original specification or the specification——

Mr. Ramsey: They are both the same, if the Court please. No. Pardon me. I meant—I get your point. No, I mean in any specification either in the original patent or the part of it originally submitted or in the reissue patent, any specification.

The Court: I think we ought to take this up in order. You have shown that for seven lines in the original file specification about 150 lines have been added.

Mr. Ramsey: That's correct.

The Court: Now, what is the point of that?

Mr. Ramsey: The point of that, if the Court please——

The Court: Well, I think you had better not answer and testify.

Mr. Ramsey: I thought I was just answering your question. I think it will appear to the Court later, not this next question, but it will appear later in this witness' testimony.

The Court: All right. Go ahead.

Mr. Ramsey: Did I fail to answer the Court's question?

The Court: No. I don't know the purpose of this, but [1273] I don't know a lot of purposes here. So go ahead.

Mr. Ramsey: Yes.

(Testimony of Glenn Muffly.)

Q. The question I asked you was whether the words in the claims "maintain substantial temperature of air" appear in the specification, any specification?

A. No. I think I should refer to my own marked copy of this rather than this one.

Q. Would that be more helpful?

The Court: Well, I don't think you can do that.

The Witness: Oh, it's my own markings.

Mr. Ramsey: All right.

Q. Do you find any words "relative humidity of air" in the specification? A. No.

Q. Do you find any words "air in the freezing compartment"? A. No.

Q. Do you find words "cooling refrigerant expander"? A. No.

Q. Do you find any definition of "heat-conducting surfaces of said expander"? A. No.

Q. Do you find the statement of the construction and arrangement of a "cooling refrigerant expander"? A. No.

Q. Do you find any statement as to the "maintenance of [1274] temperatures of said expander and said surfaces"?

A. No; very indirectly.

Q. Do you find any statement with regard to the "maintenance of air at stable temperatures in the cooling compartment"?

A. Again, no; but it might be inferred indirectly.

(Testimony of Glenn Muffly.)

Q. Do you find a description of a "freezing refrigerant expander"?

A. The word "expander" does not appear anywhere in the specification.

Q. Do you find a description of the "heat-conducting surfaces of the freezing refrigerant expander"?

A. No.

Q. Do you find any statement as to its construction and arrangement in the specification?

A. No. I have only the drawing here.

Q. Do you find anything with regard to the "freezing refrigerant expander having a maintained temperature"?

A. No.

Q. Do you find a definition of the words "a liquefying unit"?

A. No.

Q. Do you find in the original specification as filed any description of "thermal insulation offering less resistance at one point than at another to the flow of heat in the freezing and cooling compartments"?

A. No. [1275]

Q. And that is the part that was added, you say, in January of 1934——

A. Yes. That's this insert, right.

Q. And you have testified as to what that part was substituted for?

A. Yes.

Q. Now, in interpreting these claims in the light of the specification, the disclosure, the teaching, you have had to adopt some conclusions, is that correct?

A. Yes.

Q. And I wonder whether you would step down

(Testimony of Glenn Muffly.)

to the foot of the exhibit 16-A and tell us what have you adopted as a cooling compartment?

A. As cooling compartment I have adopted 14, the upper larger compartment.

Q. Now, freezing compartment?

A. Freezing compartment is 12, but it could be stretched to include 20. 12 is a very small sleeve in the brine tank and 20 is the larger space.

Q. Are you sure it's 20, or is it 13?

A. Oh, pardon me. 13 is the space.

Q. Now, the thermal insulation, what is that?

A. Thermal insulation is 40 and 41, 38, 39, the material shown in the walls that surround the liner of the compartments.

Q. Well, what is the cooling refrigerant expander? [1276]

A. The cooling refrigerant expander must be the coil 25 in the cooling compartment 14.

Q. Do you find a finned coil or other frost-deterrent structure in the specification?

A. No. I find nothing of that sort.

Q. Do you see anything in the drawings, particularly Figure 2, which illustrates a finned coil?

A. No. This coil leads into a rectangle which might be a brine tank.

Q. What do you adopt as the freezing refrigerant expander, interpreting the claim?

A. That is the tube 22—the coil 22, which is in the brine tank.

Q. Now, what are the exposed surfaces or heat-conducting surfaces thereof?

(Testimony of Glenn Muffly.)

A. That would be the external surfaces of the coil 22.

Q. Now, volatile refrigerant?

A. Volatile refrigerant is the material circulated in the system. I don't believe it's specifically identified, but I know there must be such a refrigerant because there is an expansion valve. That indicates there is a volatile refrigerant.

Q. And what is a single liquefying unit?

A. That is the condenser 18 is the liquefying unit. If we expand that term and call it condensing unit it's this assembly in the machinery compartment 11. [1277]

Q. Now what is differential insulation?

A. That, I assume, refers to the insulation 39 as compared with 41, or 38 compared to 41, or 40 compared to 38.

Q. Now, what is said with regard to the placement of the temperature actuated motor controlling switch 31 with respect to the differential insulation?

A. It is in the compartment having the greater heating—heat link there into or thereto.

Q. Now—— A. The——

Q. Did I interrupt you?

A. The warmer compartment, and that is explained as having more heat in it.

Q. That is the compartment 14?

A. Compartment 14.

Q. Fine. Thank you. I wonder whether you would again look at the file wrapper.

(Testimony of Glenn Muffly.)

The Court: Look at what?

The Witness: The file wrapper.

Mr. Ramsey: The file wrapper that he was referring to. That is Plaintiff's Exhibit 101.

The Witness: Right.

Q. (By Mr. Ramsey): When was this application originally filed?

A. This was filed February 16th, 1931. [1278]

Q. Now, I ask you to refer to pages 8, 9, and 10, of the file wrapper. What is contained on those pages?

A. Those are claims.

Q. Are those the claims of the application as originally filed?

A. As originally filed, starting with Claim 1.

Q. We won't go through all of the claims, but can you summarize what these claims originally filed covered or attempted to cover or claimed or monopolized?

A. Well, Claim 1 is only two lines and that's——

Mr. Cuningham: If your Honor please, I object. I think that's construction of a legal document, not for this witness, but for the Court.

The Court: I don't know what you want me to do about that.

Mr. Cuningham: I think he should not be allowed to testify about the meaning of these claims. I don't think he is qualified.

The Court: Well, I held against you on that. I don't think this is a good time to start in on all these claims because we want to take a recess in a

(Testimony of Glenn Muffly.)

couple minutes. But I would like to ask you a question that has been bothering me.

Mr. Ramsey asked you whether a number of terms were defined either in the specification or in any other [1279] place in the patent. I would like to know, are those terms defined or similar terms ordinarily defined in the patent?

The Witness: Yes. The terms from the—he is comparing the terms used in the claims with the terms used in the specification, and he was asking me about the specification of the patent. I assume it's partly to identify what I understand each of those things to mean, what those words mean. There are some words used in these claims that are not common in the industry.

The Court: Oh. So it's your point, then, that some of these words that were used are not common in the industry and ordinarily are defined, and by reason of their not being defined you have to make certain assumptions?

The Witness: He wants me to define some words, I assume, yes. I have to, in reading the claims, determine what those words mean and it is a bit difficult; somewhat by a process of elimination I determine what they have to mean, the words in the claims.

The Court: Mr. Muffly, would a man who is a skilled refrigerator engineer be able to read those specifications and construct a box?

The Witness: From the specification he could construct a box as shown in the drawings, yes. He

(Testimony of Glenn Muffly.)

wouldn't need much guidance to take that drawing and make a cabinet and system like it. [1280]

The Court: And would that correspond with the claims?

The Witness: Not quite. That's one of the points, that the claims differ from the disclosure and in some respects are vague. I imagine that Mr. Ramsey was going to ask me something about——

The Court: Well, don't worry about what Mr. Ramsey is going to ask you. He will have that opportunity.

The Witness: All right.

The Court: I think that was something that was bothering me, and I thought perhaps it was bothering some of the jury, too.

So we will take a recess now for about ten minutes.

(Recess.) [1281]

Q. Mr. Muffly, have you asked me to have the Judge's questions repeated to you?

A. Yes, I have.

Q. Do you think you might have misunderstood his questions?

A. I would like to have one reread. He started out, "Could I build this refrigerator——"

(Discussion off the record.)

The Court: I think I said could a man who was skilled in the art, by referring to the drawings and the description, construct a refrigerator of the type

(Testimony of Glenn Muffly.)

constructed by Potter, or could he construct a refrigerator?

The Witness: Yes.

Mr. Cuninghame: That is, if Mr. Muffly knows, in his opinion, you mean?

The Court: Yes.

The Witness: Yes, and I said "Yes," to the question. The question was whether that was all of the question. I think that is right.

The Court: Then the next question I asked you, would it correspond with the claims in the reissue patent?

The Witness: Oh, then it was two questions, and that one I should have answered "No."

The Court: You did answer it "No" before.

The Witness: Did I? Well, then, I am all right.

The Court: You said that there were differences [1282] between——

The Witness: Yes, that is right; I said there was a difference. I was a little worried that that one question I had given the wrong answer to.

Q. (By Mr. Ramsey): There was another question the Court asked with regard to the specification and the words that appear in the specification—words of the claim, and he asked you, "Do the words of the claim," as I understood the Court's question, "have a definition basis in the specification?"

The Court: No, I did not ask him that question. I asked him whether the words that you asked him originally with reference to whether or

(Testimony of Glenn Muffly.)

not there were definitions in the specifications, and I said to him, "Are those words ordinarily defined in patent applications?" That is the question I asked him.

The Witness: They should be defined in the specification, and some I said were not entirely clear, words in the claims that are not in the specification.

The Court: The question was, are they ordinarily defined in patent applications, and what is your answer to that?

The Witness: Well, they should be defined in the specification in order to use them in the claims.

The Court: All right. [1283]

Mr. Cuninghame: May I ask if those are the terms he has listed like air in the freezing compartment that should be defined in the claims or in the specification, things like that, or just plain air?

The Witness: No, they referred to things like the word "expander," is an example.

The Court: Is your answer that some of the words used by Mr. Ramsey should have been defined and others are well known to persons in the art?

The Witness: Yes; could easily be determined, or there might be a difference of opinion between attorneys as to whether or not they should be, anyway.

The Court: What about the word "air" in the compressor or expander? What was the phrase that you used, Mr. Cuninghame?

(Testimony of Glenn Muffly.)

Mr. Cuningham: Well, your Honor, the simplest one is "air," plain air, a-i-r.

The Court: The word "air" standing alone does not need to be defined in the patent application?

The Witness: I can't answer it from a legal angle, but I would know what it meant if I read it in the claim.

The Court: In your opinion, it needed no definition?

The Witness: The word by itself, I would understand it to mean air in the space concerned. Of course, if it referred to air temperature, I would assume it meant the [1284] air in that space.

Mr. Ramsey: The question, if the Court please, went to certain kinds of air, humid air or temperature air or maintained air.

Mr. Cuningham: Or relative humidity of air is one that I copied carefully. Now what is relative humidity of air?

The Court: Go ahead.

Q. (By Mr. Ramsey): Turning to Page 8, we were looking at some—that is of Defendants' Exhibit 101—we were looking at some of the typical claims. We were looking at the claims he originally submitted. You commented on Claim 1 and read it.

The Court: He did not read it.

The Witness: I was suggesting I read that because it was the shortest.

Mr. Ramsey: Read Claim 1.

A. Claim 1 reads:

"A refrigerator having a freezing compartment,

(Testimony of Glenn Muffly.)

and a cooling compartment thermally separated from said freezing compartment.”

Q. Next, skipping down, oh, say, to the fourth claim, how does that read?

A. That reads:

“A refrigerator having a cooling compartment, a freezing compartment thermally separated [1285] from said cooling compartment, expansion coils in each of said compartments connected in series, a means for controlling the admission of refrigerant to the coil of said freezing compartment.”

Q. Now the seventh.

A. Claim 7 reads:

“A refrigerator having a combination cabinet in which is formed a pair of thermally separated compartments, each of which is provided with an expansion coil, said coils being connected in series, means for regulating the admission of refrigerant to the coil in the freezing compartment, a heat-pumping unit connected to the discharge end of the cooling compartment coil, and a temperature-actuated control switch for said pumping unit disposed within said cooling compartment.”

Q. Do you think those are typical of the remainder? A. They are.

Q. Now turn over to Page 13 of the file wrapper. What is that?

A. That is an office action mailed October 8, 1931, paper No. 2. It is a rejection. The claims are all rejected, citing a reference, “Davenport 1,731,711.”

(Testimony of Glenn Muffly.)

Q. Next, turning over—no, remaining at that same page, [1286] how did the applicant then, Potter, attempt to distinguish over Davenport? What did he say? Would you read that? It is short.

A. Going to the reply?

Q. That is on Page 13.

A. Starting on—that would be Page 14 where the reply comes.

Q. Pardon me; yes, it is 14, yes.

A. In response to this paper dated October 8th, the remarks?

Q. Yes; can you summarize, though, to save time?

M. Cuninghame: I object, your Honor.

Mr. Ramsey: Read them all.

Mr. Cuninghame: I do not want it colored.

The Witness: Read them directly?

Mr. Ramsey: Yes.

A. Under the heading of "Remarks:"

"The examiner states that 'what the applicant refers to as his cold storage compartment corresponds to the space between the evaporator 4 and the walls of the compartment C of Davenport.' "

Now, it continues, the examiner talking now——

The Court: No.

The Witness: Or, no, the attorney talking, pardon me:

"The attention of the examiner is respectfully [1287] called to the fact that Davenport is claiming 'a process of holding over the low temper-

(Testimony of Glenn Muffly.)

ature in the freezing element which comprises utilizing the surface condensation of the other to form a coating of frost on the freezing element'—whatever that may mean. It is certain, however, that this suggests the formation of a coating of frost on the freezing element. Nothing could more clearly differentiate the two inventions than this simple statement, since the applicants have, by the arrangement which they are claiming, eliminated this very condition."

Q. Now what happened thereafter?

Mr. Cuningham: If your Honor please, he has cut him short. There is much more to it including the signature at the end. Let us see whose representation this is.

Mr. Ramsey: Is it not the attorney for the patentee?

Mr. Cuningham: It is the attorney at that time who was substituted because he did not understand the invention.

The Court: There is nothing in the record to that effect.

Mr. Ramsey: I object to that and ask that that comment be stricken.

The Court: The jury is instructed to disregard the [1288] remarks. I think that the patentee is bound by the statements of his attorney. You can bind the plaintiff. Mr. Birkenbeuel can bind them.

Mr. Cuningham: May he continue?

The Court: Well, I think that it should be read. It does not have to be read by the witness. Do you

(Testimony of Glenn Muffly.)

want to read it yourself, or do you want to have somebody else read it? Under our rules, Mr. Ramsey, at any stage of the proceedings when you are conducting the examination you can read any portion of an exhibit. It does not have to be read at the time of introduction.

Mr. Ramsey: Fine; thank you. I think that the next might be pertinent and informative. May I read that? Counsel asked that I do. The next says:

“In the first place, they have provided three kinds of compartments, No. 14 which is a cooling compartment but not a freezing compartment, No. 13 which is a freezing compartment and in which are placed non-volatile foodstuffs, and the last a water-freezing compartment 12 in which only as much frost can form as results from water evaporation.”

This is—I am not reading now—this is described in the drawing and the specification as——

The Court: Mr. Ramsey, you cannot do that. If you [1289] are going to read, read. The witness is the only person who can testify.

Mr. Ramsey: “In the compartment 13, which is separated therefrom, the temperature is so low that the frost is in the form of a white powder, and it is impossible for this ever to gain access to the water-freezing compartment 12. In the compartment 14 there is condensation but practically no frost, and if it does form it is caught in the collector 28 and transferred to the receptacle 30 after which it is never again frozen.”

(Testimony of Glenn Muffly.)

Mr. Cuningham: I think we ought to have it all, your Honor.

Mr. Ramsey: I think that you may be able to do that. I do not mind reading.

“Most certainly Davenport does not suggest this in the patent cited, nor in any of his other patents with which the writer is familiar.

“It will interest the examiner to know that in spite of all work that has been done in refrigerating lines in the last decade it has remained for the applicants to evolve this highly desirable cabinet, which they are now engaged in placing on the market with most gratifying results. [1290]

“Without further entering into the various claims on which a reconsideration has been asked the Examiner’s attention is respectfully redrawn to the applicants’ statements of invention. If the Examiner will kindly point out a reference which more clearly discloses these objects than does Davenport, and better still a reference which discloses a means for attaining these objects, the applicants will be glad to withdraw their claims, but in the absence of a better showing a favorable action is solicited.”

Mr. Cuningham: Thank you.

The Court: “Respectfully submitted, Lewis J. Bronaugh, Thomas I. Potter, by their attorney, E. B. Birkenbeuel.”

Mr. Ramsey: Yes.

Following that solicitation on the part of the applicants’ attorney and referring to Page 16 of the

(Testimony of Glenn Muffly.)

file wrapper, what did the Examiner say? Following the Court's suggestion, I will read it to shorten the time. It refers to claims 2, 3, 4, 6, 7, 8, 9, 10, 11, 12, 13 and 14, "are again rejected as presenting no invention over the patent to Davenport, cited above. See the last Office action.

"Claims 5 and 10 are rejected on the patent to Davenport on the ground of old combination. Applicant has merely substituted [1291] a thermostatic expansion valve for Davenport's expansion valve. This substitution is not deemed to involve invention. The patent to Eddy is cited above for the purpose of showing the use of thermostatic expansion valves.

"Claims 2 to 14, inclusive, are rejected as reading directly on the patent to Hunt, cited above."

The Court: I think you can point out that the applicants themselves abandoned Claim No. 1.

Mr. Ramsey: Yes, that is right, they can, and it was abandoned.

Then skipping over to Page 24, do you find that? Page 24 is the——

The Witness: It is the end of the document.

The Court: I think we are opening up quite a bit if we read Page 24.

Mr. Cunningham: That is the only statement by one of the patentees, I think, in here as distinguished from one by their attorney.

The Court: 24 is the statement by the attorney.

Mr. Ramsey: That is what I find.

The Witness: Then my 24 is——

(Testimony of Glenn Muffly.)

Mr. Cuningham: It is 23, your Honor, the way it is numbered here. [1292]

Mr. Ramsey: They were certified copies from the Patent Office, but the claims seemed to differ.

The Court: 24 is a letter from Mr. Birkenbeuel.

The Witness: Mine is different. 24 is a document ending signed by Mr. Potter.

Mr. Ramsey: Is that on Page 24 in the original exhibit?

The Witness: Page 24.

Mr. Ramsey: Letter from Birkenbeuel.

The Witness: It bears Mr. Potter's signature.

The Court: Is that the one you have?

Mr. Cuningham: Yes, your Honor, that is what I said. [1293]

The Court: Is that the one you have?

Mr. Cuningham: Yes, your Honor. That's what I said before.

The Witness: And——

The Court: You have a soft copy or certified copy?

Mr. Cuningham: I have a printed copy in the preceding litigation.

The Court: Well, I have a certified copy.

The Witness: I have a certified copy.

Mr. Ramsey: I have a certified copy.

Mr. Cuningham: And this is printed from the certified copy.

The Court: What were you asking about, a letter from Mr. Birkenbeuel?

Mr. Ramsey: That's correct.

(Testimony of Glenn Muffly.)

The Court: That's what mine is dated, October 5th, 1932.

Mr. Ramsey: That's correct.

In that letter his attorney writes Mr. Potter, then living in Buffalo: "Dear Mr. Potter: I hand you herewith a copy of Paper No. 4 in your application for a patent on a Refrigerator, Serial No. 516,032. The latest action in this case was taken on April 9th and I have purposely refrained from acting thereon as long as possible. I frankly believe that the Examiner is correct in his rejection on Davenport and do not see wherein our case could be improved by [1294] carrying this matter on further. I sincerely believe that there is nothing patentable in this case.

"The references in question are enclosed herewith.

"Yours very truly, E. B. Birkenbeuel."

Mr. Cuningham: Now, we might as well read the next letter and the next and the next.

The Court: You can do that in your case, Mr. Cuningham.

Mr. Cuningham: All right, sir.

The Court: Anybody can refer to any portion of an exhibit that has been admitted in evidence.

Mr. Cuningham: I should think that once he opened the subject he might——

The Court: Mr. Cuningham, I'm running this case.

Mr. Cuningham: I'm sorry, sir.

(Testimony of Glenn Muffly.)

The Court: You've been trying to run it ever since you got into this courtroom.

Go ahead.

Q. (By Mr. Ramsey): On my copy, page 25, is the next amendment. Does that correspond with yours?

A. Page 25 is an amendment received December 2nd, 1932.

Q. Yes. I direct your attention to Claims 15 and 16 on 25 and 26, and I will read the Claim 15 to you:

"A refrigerator comprising a cabinet formed with a dry, cold storage chamber and a relatively moist and warm cooling chamber thermally insulated [1295] from the cold storage chamber, a freezing coil in the cold storage chamber, a non-frosting coil in the cooling chamber, a line directly connecting said coils, and a heat pumping unit for drawing gasified refrigerant from the non-frosting coil and returning the same as a liquid into the freezing coil."

Have you examined the file, Mr. Muffly? First, is that or is that not a first reference to a non-frosting coil up to December 2, 1932?

A. Yes. That's the introduction of that term.

Q. Claim 16 is very similar and does that or does not that refer to a non-frosting coil?

A. Yes, that refers to a non-frosting coil in Line 5.

Q. And both of those were submitted to the patent office for the first time on December 2, 1932?

(Testimony of Glenn Muffly.)

A. Correct.

Q. Now, referring to page 28, Lines 3 to 16, on this subject of non-frosting coils:

“As is well known the non-frosting coils do not collect frost”——

this is a part of the amendment on the amendment filed to support these claims 15 and 16——

“As is well known the non-frosting coils do not collect frost because the vanes cannot carry off heat fast enough to be cooled much below the [1296] temperature of the air surrounding them. If the temperature of the vanes is, for instance, 38 or 36° Fahrenheit, and the average temperature of the air in the compartment is 40°”——

The Court: “In the chamber.”

Mr. Ramsey: “In the chamber is 40° Fahrenheit, moisture will be precipitated upon the vanes until the moisture remaining in the air corresponds to the saturation point at 36° Fahrenheit, which is little below that”——

Mr. Cuninghame: “But little.”

Mr. Ramsey: “But little below.”

“This moisture is not abstracted from the chamber and some of it is actually picked up by the air. At all events the air and the chamber has far more moisture than it would be if it were circulated against a freezing unit maintained at a temperature below 20° Fahrenheit.”

So that was the argument in support of Claims 15 and 16.

Next, referring to——

(Testimony of Glenn Muffly.)

Mr. Cuninghame: Is there a question, your Honor, on these?

The Court: I don't know. What is the question you are asking Mr. Muffly? [1297]

Mr. Ramsey: These are all in the basis of an argument made a little later and I must refer to these portions and the arguments and the later submitted claims so that my questions will make sense.

The Court: All right. Where do you want to read from now?

Mr. Ramsey: Referring to page 30, the last paragraph:

“Claim 4 distinguishes from Hunt because it calls for two compartments one being a freezing compartment and the other a cooling compartment with expansion coils in each of the compartments connected in series. This series connection is not found in the Hunt patent. As for the Davenport patent the evaporator 5 is not a coil and it is impossible with Davenport's construction to obtain the results which applicants obtained with their non-frosting coil in the cooling chamber.”

Mr. Cuninghame: “Cold coil.”

Mr. Ramsey: “Non-frosting coil.” Is that wrong?

Mr. Cuninghame: Yes. “Cold coil.”

Mr. Byron: “Coil” in mine.

Mr. Ramsey: “Coil” in mine.

The Court: No. He is reading it correctly, Mr. Cuninghame.

Mr. Ramsey: “Applicants obtained with [1298]

(Testimony of Glenn Muffly.)

their non-frosting coil in the cooling chamber." Is that the way yours reads?

"Reconsideration of claim 4 is requested."

The Court: You read it correctly.

Q. (By Mr. Ramsey): Are you familiar with the Hunt patent and the Davenport patent?

A. Yes.

Q. Are you familiar with them? A. Yes.

The Court: He has already answered he is.

Mr. Ramsey: I didn't hear.

I wonder if you could step down to the black-board so that this argument will be understood by the jury and see what the attorney is saying at this point. Could you use the other side of the board? The reference at this stage is to the Davenport patent. Do you have the patent to work from? A. No.

Mr. Byron: He has got a copy of the Davenport patent.

The Witness: Davenport patent? I have that.

Mr. Byron: 1,731,711.

The Court: What are you going to have him do, draw the Davenport patent?

Mr. Ramsey: A portion of it so that it will make—be intelligible to the jury what we are contending at this point, [1299] if you can do it quickly.

The Witness: This is 1,731,711, Figure 1 of it.

The Court: Mr. Ramsey, this man is your witness. You can ask him the ultimate question, then if Mr. Cunningham doesn't agree with him he can subject him to cross-examination and make him do

(Testimony of Glenn Muffly.)

anything he wants. But he doesn't have to go through all this as your witness. Maybe Mr. Cunningham will agree with him.

Q. (By Mr. Ramsey): Can you tell us what the Davenport patent does disclose, the pertinent portions?

A. It discloses a refrigerator described for domestic use with a freezing compartment in the bottom partially above and at one side of the condensing unit a flow is through an expansion valve.

Q. Pardon me. I have a rather good idea. We have that all drawn out in Plaintiff's Exhibit 114-L. I wonder if we could have that and then that will shorten it up a lot.

The Witness: Yes.

Mr. Ramsey: It's a big chart. I wonder whether it would be helpful, I have some miniatures of these charts.

The Court: I think the jury can see this.

Mr. Ramsey: Can they?

The Court: Yes. If they can't see we will bring it up a little closer.

The Witness: This is what we are going to look at. [1300] Would you like it a little closer?

Q. (By Mr. Ramsey): Now, the thing that I am just reminding you, Mr. Muffly, the remarks of the applicant at this stage are as to the Davenport patent:

“As for the Davenport patent the evaporator 5 is not a coil and it is impossible with Davenport's construction to obtain the results which applicants

(Testimony of Glenn Muffly.)

obtained with their non-frosting coil in the cooling chamber.”

Now, just limiting that definition——

A. The Davenport patent shows the condenser over here (indicating), tube going over here to the freezer (indicating) coming into the expansion valve, and then coming up through an evaporator. 5 is the evaporator and it's merely a double line on the back wall of the cabinet. You wouldn't know there was an evaporator there because it's merely a double line. And 5 is the identifying number, and that refers to a sheet metal evaporator that covers the entire back wall of the refrigerator.

As we look in the front of the refrigerator this 5 points over to the back wall. That is the evaporator which cools this upper compartment.

Q. Is that the cooling compartment?

A. That is the cooling compartment.

The lower compartment is the freezer. Figure 16 [1301] appears in it.

Mr. Byron: 3 is the freezing chamber?

Q. (By Mr. Ramsey): Can you see from the drawing?

A. Letter C. C is the freezing chamber, and that refers to the space in which these items are located. From there the refrigerant goes up through this large flat evaporator that covers the back wall of the main food compartment or cooling compartment.

Q. (By Mr. Ramsey): Now, is that a cold-wall refrigerator type?

(Testimony of Glenn Muffly.)

A. That is close. It's a bit different because this is actually inside of the compartment B, the warmer compartment. The cold-wall type would more properly refer to the other Davenport patent alongside it.

Q. What number is that?

A. That's 1,726,344.

Q. Would you explain that very briefly?

A. Well, the evaporator 5 is actually within the compartment B being placed inside of the compartment, whereas the evaporator shown by the dotted line GE Sub A—and I think the general—no capital E—this evaporator that cools the main food compartment in the 1,726,344 Davenport patent has a coil outside of the compartment between the liner and the insulation, and that would be strictly a cold-wall type.

Q. Now, the only point made at this stage is, he says that [1302] the Davenport Patent No. 1,731,711 that the evaporator 5 is not a coil and it is impossible with Davenport's patent to obtain the results which applicants obtained with their non-frosting coil in the cooling chamber.

A. That's not correct. You can do anything with the sheet metal evaporator that you can do with a coil.

Q. No. I'm asking, is that——

A. Oh, yes.

Q. ——is that the contention that he is making?

A. The contention he made. I thought you were asking me if his contention was correct.

(Testimony of Glenn Muffly.)

Q. Let's see, then, you might take your seat again, Mr. Muffly, if you will, and look at page 48. Now, this is dated January 29, 1934, and this is where the long insert that you discussed was put in about differential insulation. A. Right.

Q. Is that correct?

A. That's correct. [1303]

Q. Is that correct? A. That is correct.

Q. And the claims that follow on Pages 52, 53, 54, 55 and 56 are directed to the subject matter of this added portion of the specification?

A. Yes.

Q. Referring to Page 57, do you find that?

A. Yes.

Q. And reading just the first paragraph to you:

“At said conference—” which is some time prior to the date of this amendment—“At said conference mention was made of the patent to Anderson, No. 1,439,051, issued December 19, 1922, and it is requested that this patent be made of record in the present case. The Anderson patent shows a cabinet with two refrigerating chambers therein, one of which is adapted to be maintained at a much lower temperature than the other. In Anderson's low-temperature chamber there is an open coil adapted to support ice trays. Anderson does not provide a cold storage compartment and a freezing compartment as separate chambers, but in order to avoid any possible confusion as to the scope of Claim 2 this claim has now been amended to state specifically [1304] that the cold storage compartment

(Testimony of Glenn Muffly.)

is separated from although thermally connected to the freezing compartment.”

Is this the first reference in the file history, file wrapper, to the Anderson patent? A. It is.

Q. That was in the amendment of January 29, 1934? A. Yes.

Q. When he added all of this long insertion to the specification.

Next, directing your attention to a little further down on the page when he is arguing about Claim 15 which is newly inserted, and he says, “Claims 15 and 19 avoid the Anderson patent in calling for a non-frosting coil in the cooling chamber.” Is that correct?

A. That is correct, the word “for” instead of “in,” calls for a non-frosting coil in the cooling chamber.

Q. Yes, that is correct. Now, next referring to Page——

The Court: Are you asking him whether the statement is correct, whether you read it correctly, or whether that is true?

Mr. Ramsey: No, he corrected my reading of it, and at least I thought he did, and I said——

The Court: Mr. Ramsey, when you asked Mr. Muffly a question were you just asking if you read the statement [1305] correctly or whether the statement is correct?

Mr. Ramsey: No, I did not ask him the latter. I will come to that, if the Court please, where it gets down into more exact definitions.

(Testimony of Glenn Muffly.)

The Court: Very well.

Mr. Ramsey: Next referring to the file wrapper Page 70, and this is the point, if the Court please, where——

The Court: Go ahead.

Mr. Ramsey: Yes, this is an argument made by the applicant under date of March 6, 1936, to an action, Office action of September 7, 1935, in which the Examiner holds to a rejection on the Anderson patent, and starting at the top of Page 70 the attorney for applicant states as follows:

“Examiner naturally assumes that because one of the chilling elements is immersed in water the chamber which it chills must be maintained at a temperature above the freezing point. This is very true, but it does not mean that the surface temperature of the chilling element would be maintained above the freezing point if there were no water present. In actual practice, such elements gather frost were they not immersed in water.”

Stopping the quote at that point, as an expert, Mr. Muffly, would this be true, any evaporator or any cold [1306] surface that is immersed in water would be non-frosty?

A. The surface immersed in water might collect ice, not frost, and the question of whether or not it collected ice would depend upon its temperature.

Q. But then it would not be water; it would be ice that covered it?

A. It would then have a coating of ice.

(Testimony of Glenn Muffly.)

Q. Going on with the quote:

“In actual practice, such elements would gather frost were they not immersed in water. As distinguished from these soda water cabinets, applicants have produced a refrigerator adapted for household use and containing at least two thermally separated chambers which in the new claims are termed ‘air chambers’ to distinguish them from liquid-containing tanks. Applicants’ invention comprises a refrigerating system in which one chamber is maintained at a temperature well below 32 degrees F., and another chamber maintained at a temperature above this point, and the chilling unit in the latter chamber operates at a surface temperature that is above the freezing point so that no frost will collect thereon to rob the air of the chamber and the foods therein of moisture,” [1307] breaking the quote at that point.

He is now limiting claims on non-frosting to those exposed to air?

Mr. Cuninghame: I object.

The Court: Objection sustained. That is a leading question, Mr. Ramsey. Are you making a statement to the jury, or are you asking Mr. Muffly a question?

Mr. Ramsey: No, I was asking this witness an interpretation of the language.

The Court: I sustain the objection. It is a leading question.

Q. (By Mr. Ramsey): Then assuming that claim, Mr. Muffly, defines a cooling element in which

(Testimony of Glenn Muffly.)

a surface temperature is exposed to air and that that would occur in a claim, would that limit the claim to that language?

A. Yes, that would be a limitation of the claim.

Q. Reading on:

“This inventive thought is not disclosed in any of the references cited. In the patent to Davenport, No. 1,731,711, for instance, it is definitely stated that the element 5 in the chamber B becomes frosted during operation of the refrigerating system and defrosts itself during the periods when the machine is cut off”—breaking at that [1308] point.

Following that interpretation in claim, would such language be limited to non-frost evaporators rather than frost-defrost types?

Mr. Cuningham: If your Honor please, I must say I do not understand the questions.

The Court: Neither do I.

Mr. Cuningham: I do not think anybody does.

Mr. Ramsey: The point of the question, if the Court please, is that at this stage this applicant has been driven—he first presents claims for a non-frosting evaporator, that is, one that does not collect frost, and he is distinguishing at this point between those that will not frost and those that will frost and defrost during an operating cycle, and that was the point of my question to this witness.

The Court: Do you understand what he means?

The Witness: Yes; I think I ought to have the

(Testimony of Glenn Muffly.)

question read back, but I know what he is talking about. I can answer it.

The Court: What is he talking about?

The Witness: This sentence that he has read refers to a situation where the evaporator becomes frosted during operation of the system that is on an on-cycle, and it defrosts itself during the periods when the machine is cut off. That is what we call a frost-defrost cycle or a self-defrosting [1309] cycle. The surface loses its frost each time the machine stops, so you gather some frost and lose it and gather it and lose it, but you do not necessarily have to do any defrosting job.

The Court: What does he say about that, that that was disclosed in Davenport, that frosting and defrosting?

The Witness: Let's see (reading document). He is saying that Davenport does disclose that sort of a device; that Davenport, for instance, it is definitely stated that the element 5 in the chamber B becomes frosted during operation of the refrigerating system and defrosts itself during the periods when the machine is cut off.

Mr. Cuninghame: That is true, isn't it? That is what Davenport says?

Mr. Byron: Wait. Who is examining here?

The Court: Does he distinguish the patents—the invention which he claims from Davenport?

The Witness: That is his purpose in this argument, yes.

(Testimony of Glenn Muffly.)

The Court: What does he say that Bronaugh and Potter do differently than Davenport?

The Witness: He says on Page 71 near the top, continuing the argument:

“It will thus be apparent that Davenport not only fails to disclose the idea of maintaining [1310] humidity in his food chamber to prevent of drying out of foods but actually provides special means for getting rid of this moisture.”

The Court: In other words, does he contend that in Bronaugh and Potter the chilling unit operates at surface temperature, and is that how he distinguishes it?

The Witness: Yes, on down to Page——

Mr. Cuninghame: They both operate at surface temperature, your Honor. I do not understand.

The Court: Go ahead.

The Witness: In talking of this claim, he has a new claim, 36, “The claim is more specific than certain claims previously canceled because it specifies air chambers and also specifies a fixed lower limit of operating temperature at the surface of the chilling element.”

The Court: What does that mean?

The Witness: That the contact with air is at above the freezing point so it cannot collect frost.

The Court: So he says that Davenport provides a mechanism by which the cycle goes on and off in order to prevent frosting, in order to minimize frosting?

The Witness: Yes.

(Testimony of Glenn Muffly.)

The Court: But in Bronaugh and Potter there is nothing frosting because the chamber is maintained at a temperature which is above freezing? [1311]

The Witness: Well, he is arguing that the surface is maintained above freezing. The chamber would always be warmer than the surface that cools it, so the chamber would be above freezing and still the surface go below freezing.

The Court: In general, is that how he distinguishes Davenport?

The Witness: Yes, he is arguing that Davenport is a frost-defrost cycle, a frost-defrost in the regular stop-and-start cycles of the refrigerator.

The Court: Go ahead.

The Witness: Whereas, he just does not collect frost.

Q. (By Mr. Ramsey): Now, further on that subject, I ask you to refer to Page 73 which is a Patent Office action dated May 6, 1936, and this subject of non-frost is again brought up and follows a record of rejection by the Patent Office. In this action of May 6th the Examiner states, and I quote:

“Claims 5, 7, 16 and 32, previously found to be allowable, are finally rejected as reading directly on the patent to Anderson, of record. These claims each recite a combination consisting of the following elements:

(A) A two-compartment refrigerator, [1312] each compartment being insulated from the other;

(Testimony of Glenn Muffly.)

(B) A motor-compressor unit outside of these two compartments;

(C) An evaporator in each compartment, one evaporator adapted to operate at a freezing temperature and the other adapted to operate at a higher temperature;

(D) A pipeline serially connecting the compressor and two evaporators;

(E) An expansion valve in the pipeline in advance of the first evaporator;

(F) A thermostat in the compartment housing the higher temperature evaporator for operating a switch in the motor circuit.

All of these elements, but (F), are clearly shown in Anderson's Fig. 1. However, Anderson in Lines 91 to 106 on Page 1 of his patent, states that he may make use of a thermostat in his higher temperature compartment for controlling his motor."

Then next referring to—and here is where I want to comment, Mr. Muffly—Pages 82 and 83, at the middle of Page 82, this is an argument supporting new claims, attempting to define over the old claims that [1313] were rejected and made by the applicant, that is, the persons that are trying to get the patent, and it goes to the question of this Anderson patent which has had this jury's consideration, and I read to you, Mr. Muffly:

"Before proceeding with a discussion of the references above listed, we would point out in what manner the new claims distinguish from the patent to Anderson, No. 1,439,051, on which Claims 36

(Testimony of Glenn Muffly.)

to 39, inclusive, were rejected. The withdrawal of these claims is not to be construed as an admission that they are met by the Anderson patent. They have been replaced by the new claims so as to put them in better form and so as to avoid the new references, as will be explained hereinafter.

“The Anderson patent shows two chambers insulated from each other and from the outside atmosphere, with a chilling unit in each,”—breaking the quote.

Is that also true, Mr. Muffly, in the patent in suit? A. It is.

Q. Next sentence:

“However, nothing is said in the Anderson patent regarding the surface temperature of the [1314] chilling unit in the warmer chamber.”

That is also true in the patent in suit as far as the specification is concerned? A. Yes.

Q. Next quote:

“It has been common practice prior to applicants’ invention to cool a chamber to a low temperature well above the freezing point with a chilling element whose surface temperature is well below the freezing point, and the natural inference is that Anderson’s upper coil has a surface temperature below the freezing point. Certainly there is nothing in his specification to teach the contrary. Furthermore, Anderson’s chilling units are connected in series, and no means are provided for maintaining a different pressure in the two chilling units.”

Is that true in the patent in suit?

(Testimony of Glenn Muffly.)

A. That is also true in the patent in suit. [1315]

A. That's also true in the patent in suit.

Q. Continuing the quote: "or for forming the upper chilling unit with a broad heat-absorbing surface." Now, breaking the quote. Is there anything in the patent in suit defining a "broad heat absorbing surface"? A. No.

Q. Going on with the quote:

"Such as would prevent the formation of frost thereon. It will be obvious to anyone skilled in the art that the coils in Anderson's warmer chamber must have a surface temperature below the freezing point either throughout the length of the coils or through a substantial extent thereof for if Anderson's apparatus were so arranged that all the refrigerant were evaporated in the lower chilling element there would be little cooling effect left in the completely vaporized fluid passing up through the upper coil."

Is that also true in the patent in suit?

A. It is.

Q. Continuing the quote:

"Certainly not enough to cool the large upper food chamber adequately particularly since the latter chamber is the one most frequently [1316] used and is constantly being opened for introduction of food therein."

Is that also true in the patent in suit?

A. It is.

Q. Continuing the quote:

"Or the removal of food therefrom hence it will

(Testimony of Glenn Muffly.)

be apparent to anyone skilled in the art that Anderson's coils in the upper chamber must be maintained at a surface temperature below the freezing point of water."

Is that also true in the patent in suit?

A. It is.

Q. Next:

"The fact remains that Anderson does not anywhere in his specification teach the invention disclosed in the present application."

Is that also true in the patent in suit?

A. It is.

Q. Next, going on in this same amendment where he is called upon to distinguish over other patents. Going to the middle of page 84 and reading the patent of Davenport—do you find that?

A. Yes.

Q. And you have been discussing the Davenport patent in connection with the exhibit that still is before you, [1317] Plaintiff's Exhibit L. I will read this to you:

"The patents to Davenport, Nos. Re. 17,078, 1,769,112 and 1,769,117, are cited because they disclose constructions which might be arranged to produce applicants' effect of sharp freezing in one chamber and cooling in another chamber without dehydration below 100 per cent humidity at 32 degrees Fahrenheit."

Is that the same result that they contend for? Is that the same thing they contend for as a result in these claims in suit?

(Testimony of Glenn Muffly.)

A. Yes.

Q. Next following:

“However, to obtain this effect Davenport has been obliged to use a combined vapor and gas refrigerating system. In Reissue 17,078, for instance, there is a single chilling element through which volatile fluid and a noncondensable gas are passed. In order to distinguish clearly from the Davenport construction, the new claims all call for a refrigerating system employing a volatile fluid as the sole refrigerant therein.”

Can you explain that to the jury, the difference between what he is trying to say about the Davenport construction Reissue 17,078? [1318]

A. Davenport used an evaporative refrigerant and he put some air or non-condensable gas, something that did not evaporate, mixed it in to help stir it up so it would evaporate more readily. And that is the distinction between those patents. Davenport had a single evaporative refrigerant and in addition he had some air, and the air in that case was not used as a refrigerant. So I would say that there is still one refrigerant and that one was evaporative.

Q. And in this structure which the applicants describe at this point is it your understanding from reading this that he admits that Davenport can have a cooling chamber having high humidity or moist cold, but he claims that the difference is that Davenport uses two refrigerants or one volatile re-

(Testimony of Glenn Muffly.)

frigerant and air, while he uses only a volatile refrigerant?

A. Yes, that's the distinction he is drawing.

Mr. Cuninghame: As you understand it?

Mr. Byron: Wait a minute. Wait a minute. That's not called for.

The Court: That's right. He is just expressing his own opinion. How long are you going to continue with this line of interrogation?

Mr. Ramsey: We are close to the end of the file wrapper but, as in all file wrappers, when an applicant is required to sharpen and sharpen and define and define——

The Court: Mr. Ramsey—— [1319]

Mr. Ramsey: Excuse me.

The Court: ——I just asked you a simple question. Page 66 ends the representation by Bond on behalf of Potter and Bronaugh. Do you propose to go further than that or stop there tonight? It's 4:30 now.

Mr. Ramsey: We can stop. It may be, I would say, possibly a half hour to get through the remainder of the distinctions that he makes.

The Court: Well, the distinctions which Mr. Bond makes on behalf of the Potter and Bronaugh?

Mr. Ramsey: That is correct.

The Court: Earlier today you read Mr. Muffly some statements, asked him if they were contained in the file wrapper, and then you indicated that you were going to ask him a question on it. I haven't

(Testimony of Glenn Muffly.)

heard the question yet. It was one involved at page 31, starting at the bottom of page 30:

“As for the Davenport patent the evaporator 5 is not a coil and it is imposible with Davenport’s construction to obtain the results which applicants obtained with their non-frosting coil in the cooling chamber.”

Now, you asked him if that was a correct statement, if you read it correctly, and he said you did. Are you going to ask him if that statement is true or not?

Mr. Ramsey: The witness thereafter defined by reading [1320] from the patent what that meant. These are only representations and representations against interest that I am asking the witness to describe and interpret. Limiting factors.

The Court: Well, maybe tomorrow you had better ask him that again because I didn’t understand it.

On page 51 you said something about the difference in insulation. Mr Muffly, was that the first time that the different widths or sizes or quantities of insulation were disclosed?

A. In the specification, yes.

The Court: Was it shown in the drawings?

A. The drawings show, as I pointed out, some thicker areas of insulation.

The Court: But, this was the first time it was shown in the specification?

A. The first time it was put into the specifica-

(Testimony of Glenn Muffly.)

tion. The drawings, I think I pointed out on the larger chart, show some thicker areas.

The Court: And did the claims claim a difference based upon different sizes in the insulation?

A. Not to start with. Those came in later after the broader claims were finally rejected, and this additional material had been inserted in the specification.

The Court: All right. Well, I am just trying to ask questions that bothered me and I assume that when I don't [1321] understand something most likely the jury doesn't understand it either.

I think this is a good time to quit.

Ladies and gentlemen of the jury, I am still hoping that this case will be through by Thursday night and I think you can assume that the case will be over in any event this week, and you are now excused until tomorrow morning at 9:30.

(Whereupon the jury was excused.)

(The following proceedings were had out of the presence of the jury:)

The Court: Mr. Ramsey, how long do you propose to interrogate Mr. Muffly?

Mr. Ramsey: I think that I can get through within a day; that is, through tomorrow morning. We are through the file wrapper and we have all our comparison charts to go through and explanation of the accused devices. It will go faster but it does take time.

The Court: Well, the only thing I suggest is don't waste any time.

(Testimony of Glenn Muffly.)

Mr. Ramsey: I'll try not to.

The Court: Recess until 9:30 tomorrow morning.

(Whereupon, at 4:30 o'clock p.m. an adjournment was taken until Tuesday, November 29, 1955, at 9:30 o'clock a.m.) [1322]

Tuesday, November 29, 1955, 9:40 A.M.

(The trial herein was resumed, pursuant to adjournment, and further proceedings herein were had as follows:)

GLENN MUFFLY

a witness produced in behalf of Defendants, thereupon resumed the stand and was examined and testified further as follows:

Direct Examination (Continued)

By Mr. Ramsey:

The Court: Mr. Ramsey?

Mr. Ramsey: I wonder if we might have Exhibit 114 put on the easel and brought closer to the jury so they can read it.

(Exhibit referred to produced before jury.)

Mr. Ramsey: Will you please give the witness Exhibit 114-A.

(Discussion off the record.)

(Testimony of Glenn Muffly.)

The Court: Mr. Cuningham, do you have a copy of this?

Mr. Cuningham: I do, sir, but I left it at the office this morning.

Mr. Cheatham: Your Honor, I have sent for them, and they will be here shortly.

Mr. Ramsey: May I loan you one, Mr. Cuningham? [1323]

Mr. Cuningham: Thank you very much.

The Court: Mr. Cuningham, do you have any objection if a few copies are given to the jury so that they can follow?

Mr. Cuningham: Well, if they have a copy of the patent, if a copy of the patent is given them at the same time, your Honor, I would have no objection.

The Court: I mean just to be able to follow Mr. Muffly. If these two people were given one and then there were a few of the others, perhaps three or four persons would be given copies, and then they would be able to pick it up immediately after.

Mr. Cuningham: If your Honor please, this chart contains legends and statements not included in the patent. It purports to be, and probably is, an accurate copy of the patent claim, but it is subdivided into various elements according to this witness' ideas, I suppose, or somebody else's idea. I think that it would be absolutely necessary for a fair presentation to enable the jury to compare this chart with all its unusual and extraneous legends with the claim of the patent in suit. Now, I would

(Testimony of Glenn Muffly.)

be equipped to supply, I hope, sufficient copies of the patent in suit to accompany copies of the chart.

The Court: Mr. Cuningham, the only suggestion I made was to permit the jury to better follow the remarks of [1324] Mr. Muffly. I do not want them to take this document home with them and study it, nor do I want them to take the patent in suit or the Admiral patent, if they have any, home to study it. The only suggestion I made was that they be given three or four copies, because of the fact that the chart, which is identical to the copies that I have in my hand, is so small that they might have difficulty reading it.

Mr. Cuningham: I understand that, sir.

The Court: I just want them to be able to understand it better.

Mr. Cuningham: I do understand that, sir, but my point is, and I am sure I have not made myself clear, this is not a correct representation of the patent.

The Court: You will be able to put on your case—very well, there is an objection so we cannot do it.

Mr. Ramsey: Referring to Exhibit 114-A, what does this show, Mr. Muffly?

The Witness: This shows to the left the drawing of the Admiral refrigerator—

Mr. Cuningham: If your Honor please, apparently there is some dissension in our ranks. I will withdraw any objection to showing that chart, and

(Testimony of Glenn Muffly.)

I will expect to offer the patent in our case. Is that what your Honor suggests?

The Court: Yes.

Mr. Cuninghame: I am so sorry. I [1325] misunderstood.

The Court: You may offer anything you want. Just give about six copies, give those to the two alternate jurors. They seem to have the most difficulty in seeing.

Mr. Ramsey: If the Court please, I only have two besides the one I loaned Mr. Cuninghame.

(Discussion off the record.)

Q. (By Mr. Ramsey): What does that show, Mr. Muffly?

The Witness: At the left is a view of an Admiral refrigerator. At the right is a copy of the drawings in the patent in suit.

Q. I notice that there are colors on the chart. What do they signify?

A. These colors signify the refrigerant circuit in the patent in suit. You can see red to indicate the condenser portion of the system and green up above to represent the cooling portion of the system. The red part is, the heat is disposed of here. Here is where it is picked up. That is the cool end in the same way you have red to indicate the condenser in the base. We have green to indicate the evaporator that surrounds the freezer. We have other colors, namely, yellow and blue, to indicate the secondary system which also has a condenser

(Testimony of Glenn Muffly.)

indicated by yellow and an evaporator indicated by blue, there being four colors here, two colors in the patent in suit.

Q. In the middle there is something called "Claim 2 Bronaugh-Potter [1326] Reissue 23058." It has been agreed that that is probably the broadest claim in this patent in suit. It is broken down into numerals on the left-hand side. What do the numerals represent?

A. They represent elements of the claim starting with Figure 1 at the top appearing on both sides, a cabinet, and the lead line points to the left of the Admiral cabinet and to the right, No. 1, is the Potter cabinet.

Q. You explained yesterday the refrigeration circuit of the patent in suit. Would you briefly go over the refrigeration circuit in the Admiral refrigerator?

A. In the Admiral we have the motor compressor in one element, in the sealed unit of today, that discharges high-pressure refrigerant into the condenser which is the red-colored part in the base of the cabinet, and from that a tube leads upwardly through the insulation, and at the outlet end of that tube it becomes green. That tube is a restricting device that reduces the pressure, so here we have low-pressure refrigerant entering the evaporator coil of the freezer. That is a coil that is wrapped around the liner of the freezing compartment.

That refrigerant also may pass through, may be passed through the green portion along with the

(Testimony of Glenn Muffly.)

dotted lines on this rectangular plate below the freezer and shown above the main food compartment, so you can see it. That is the [1327] primary evaporator that is used at times as required to cool the condenser which we see below it in yellow, and that is the condenser of the evaporator shown in blue which is around the main food liner, the cooling compartment liner.

Q. I wonder whether we might have the secondary liner, Defendants' Exhibit I think it is 114-A. It is 117, Defendants' Exhibit 117.

(Exhibit referred to produced.)

Q. You were explaining how the coils of the secondary surround the liner. Would you point to it?

A. Yes, I will try to. Now, a few of these blue coils we see here are back of the liner, and here we are looking at the back side of this liner, and you see these coils that have been protected with this paper because of the mastic composition of this material with which they are pasted up against the liner, and they run around the side across the back. There is a tube in the center that is painted red and runs down. That is this one (indicating). It is green on here. It comes down from the secondary condenser. Liquid flows down each evaporator and up and is condensed in this (indicating). This secondary system is the arrangement of tubing which we see attached to, mounted on the line of the Admiral refrigerator, and you are now looking at the

(Testimony of Glenn Muffly.)

rear side of that liner, and this plate is at the top of the back of the liner, is indicated in the drawing by the rectangle [1328] on which we see the yellow tubes representing the tubes that are hidden by this. Right back of this next to the liner then, that is the condenser which condenses refrigerant because of being cooled by the primary which is very cold, condenses liquid. The liquid runs down this tube and evaporates as it flows up around zigzag on each side of the liner. That is what we refer to as the secondary refrigerating system that cools the main food space. [1329]

Mr. Ramsey: I wonder whether the jury could be shown Defendants' Exhibit 14-N. It is a photograph.

Q. Now, does that portray the secondary liner on the right-hand side of that as you have been explaining it—in the middle, rather?

A. Yes. This black part. You can see the lighter colored tubes zigzag back and forth just as they do on this Exhibit 117. At the right of that is the primary system; that is the main refrigerating system of the Admiral.

Q. Now, the colors which you were talking about are on a little colored card in the lower left-hand corner?

A. In the lower left-hand corner we have green, which is the primary evaporator; then red, which is the liquefying unit of the primary; that is the part in the base and in the very top is the primary; in between we have the secondary which is blue,

(Testimony of Glenn Muffly.)

the expander or evaporator; and the yellow on there for the liquefying unit or condenser, this rectangle (indicating).

Q. Does the portrayal of the refrigerator and, particularly, the schematic view of the system correctly reflect that that is in the accused structure manufactured by Admiral?

A. Yes. That is the correct showing of the system.

One difference is that these two plates have been separated so you can see them both. They really are clamped together. [1330]

Q. Now, considering the elements of Claim 2, I notice that you have on Elements 1, 2, 3, and 4 pointed to the corresponding portions in the accused structure. The cabinet is just the exterior of the refrigerator?

Mr. Cuningham: If your Honor please, I object. I think the witness ought to testify.

The Court: Yes. But that is a preliminary thing. Go ahead and tell us 1, 2, 3, and 4, what they refer to in both boxes without any——

The Witness: Without any further questions?

The Court: That's right. Is that all right, Mr. Cuningham?

Mr. Cuningham: Well, sir, of course you realize this is a very vital point of the case, the issue of infringement, as I understand it.

The Court: Yes. But he only went to the question of a cabinet, Mr. Cuningham.

(Testimony of Glenn Muffly.)

Mr. Cuningham: It seems to me leading at this point or giving him his head is objectionable, but I bow to your Honor's ruling.

The Court: Well, I am agreeing with you, Mr. Cuningham.

Go ahead, Mr. Muffly, and tell us what these various items refer to.

Q. (By Mr. Ramsey): Might we first break that down into the two, the cooling compartment—what is the cooling compartment?

A. The cooling compartment in the Admiral refrigerator is [1331] the compartment enclosed by/within the liner, the place where you put food, the main section of the refrigerator.

Q. Will you now point to it on the physical exhibit? What is the cooling compartment?

A. This space within. (Indicating.) This is the compartment enclosed by the door and its limits are the walls and the lining of the doors.

Q. Now, what is the freezing compartment Element 3?

A. The freezing compartment is the same portion of the upper in the top of the cabinet and we see that Exhibit No. 117-A. You can see it across the room.

Q. Would you mind going over there and pointing to it so there will be no difficulty?

A. I have—oh, they can't see it. I have placed my hand within the freezing compartment, and that is surrounded by this liner which in turn is sur-

(Testimony of Glenn Muffly.)

rounded by the primary evaporator, and this is closed, of course, by its own door.

Q. Fine. Thank you. Now, taking up Element 5 of Claim 2, what is the cooling refrigerant expander?

A. In the Admiral the cooling refrigerant expander is pointed to by the line that leads to Figure 5, and is that coil we have been talking about that is attached to the outside of the main food compartment liner. Did I understand I was to go right ahead?

Q. What was that? [1332]

The Court: Yes, that's what you were supposed to do and you missed No. 4.

The Witness: I repeat, then: We had the cabinet, I mentioned that. The cooling compartment is the interior of the main food space in both. It's 14 in the Potter and no numeral, but it's out in this space in the Admiral. No. 3, the freezing compartment. No. 4, thermal insulation points to the wall. That is cross-hatched to indicate insulated wall. And then the same way over here as a cross-hatched section that indicates insulation, and that does go around both compartments as the claim calls for.

Then we come to 5, "Cooling refrigerant expander," and that points to the coil around the liner on the Admiral. And at the right of it points to the coil within the compartment 14 in the patent in suit.

Q. (By Mr. Ramsey): Would you state the number of the cooling coil in the patent in suit?

(Testimony of Glenn Muffly.)

A. 25 is the reference character pointing to the coil.

Q. Now, there is a legend following the first indentation under the No. 5, "Heat conducting surfaces within said cooling compartment." I note the legend "No." Would you explain them, please?

A. At the left I have placed "No," indicating that the heat-conducting surfaces of this expander are not within; they are outside of the cooling compartment, whereas at the right [1333] it says "Yes," indicating that the coil 25 is actually within the compartment 14 in the Potter patent.

Q. Would you mind pointing to those parts again on the physical exhibit?

Mr. Byron: 117.

The Witness: On 117 this compartment (indicating) and on the——

Q. (By Mr. Ramsey): Never mind, just the compartment and what you call the cooling refrigerant expander.

A. The expander tube on the outside of it (indicating).

Q. Moving to the next bracket sub-indented portion, will you discuss that?

A. That section reads: "Constructed and arranged to maintain heat conducting surfaces at a temperature above 32 degrees F. while withdrawing heat from said compartment." And at the left it says "No. Is a function of thermostat." And there is a pointer that leads to a thermostat and at the right likewise it says—there is a note—my note

(Testimony of Glenn Muffly.)

added—"No. Is a function of thermostat." And a lead line goes to the upper left-hand corner of the compartment 14 in the Potter refrigerator, where we see a device No. 31, which is the thermostat, stops and starts the motor.

Mr. Cuninghame: Upper right-hand, is it not?

The Witness: Upper right.

Mr. Cuninghame: I think you said "left." [1334]

The Witness: That's upper right. 31.

Q. (By Mr. Ramsey): Move to Element 6, "A freezing"—

The Court: I don't understand. Is your contention that the claim in the Potter is not accurate and that it doesn't do that which it proposes to do?

The Witness: The point is that the cooling refrigerant expander is not the device that controls the temperature or its own temperature. Its temperature is controlled by the controls, not by itself. It isn't a function of the expander itself to control its own temperature.

The Court: Well, what about the answer to my question, then? Is it Yes or No?

The Witness: I am afraid I didn't—can you tell me that question?

The Court: Well, I was just asking you whether it is your contention that the claims from which you just read, "Constructed and arranged to maintain its heat conducting surfaces at a temperature above 32 degrees F. while withdrawing heat from said compartment," is to be found in the Potter

(Testimony of Glenn Muffly.)

box, or is it the function of the thermostat and, if so, is that an error in the claim?

The Witness: I would say it's an error in the claim, and I have said "No" to both, meaning it does not read on the Admiral and it's also an error to state it that way in the Potter. [1335]

The Court: It doesn't read on the drawing of Bronaugh and Potter?

The Witness: That's right.

The Court: Go ahead.

The Witness: In both refrigerators it is the thermostat that controls that temperature.

Q. (By Mr. Ramsey): Next considering Element 6, and I note a "No" on one side and a "Yes" on the other. Would you explain that quite briefly?

A. "A freezing refrigerant expander having heat conducting surfaces within said freezing compartment." Well, obviously on the left I say "No" because the expander is not within the freezing compartment but outside of it.

Mr. Byron: Will you please say "Admiral" and "the patent in suit" so we will all know?

The Witness: In the Admiral it obviously is not within the freezer but wrapped around the outside of it. On the right-hand side I say "Yes," with reference to the Potter refrigerator, the patent in suit, because it is within this large compartment 13, the expander.

Q. (By Mr. Ramsey): If I were to ask you to explain your legend "No" to the function of the thermostat with regard to the bracketed portion un-

(Testimony of Glenn Muffly.)

der Element 6 on both ends of it, would your answer be the same—would it not be the same as similar legends under Element 5? [1336]

A. Yes, it would be the same.

Q. Now, "Volatile refrigerant in said expanders" which is Element 7 and the bracketed portion thereunder. A. Yes.

Q. "A single liquefying unit associated with said expander and constructed and arranged to condense refrigerant expanded by heat extracted from both said compartments." Will you explain your legend and your interpretation of those to the jury?

A. The Item 7, "Volatile refrigerant in said expanders," at the left it says "Yes" with reference to Admiral because there is volatile refrigerant in all of the two systems of the Admiral.

On the right it says "Yes" because there is volatile refrigerant in the one system of the Potter refrigerator. And 7 and 9 are related because 9 says "Volatile refrigerant circulating through said expander being the sole heat extracting medium." There there is a difference. At the left there is a "No" because there are two volatile refrigerants.

Mr. Byron: Is that Admiral?

The Witness: That's Admiral. And at the right it is "Yes" because there is only one in the Potter. Then the 8 in between it refers to the handling of the refrigerant—refrigerant or refrigerants. It calls for a "Single liquefying [1337] unit associated with said expanders constructed and arranged to condense refrigerant expanded by heat extracted from

(Testimony of Glenn Muffly.)

both said compartments." In that case there is a "Yes" at the right for the Potter because there is only one condensing unit. And at the left there it says "No," there are two because there are two liquefying units instead of one. The first liquefying unit we see in the base consisting of the lead condenser and that is the one for the primary. The second condenser we see in the rectangle having the yellow lines on it in the Admiral, that is the condenser of the secondary circuit.

Q. (By Mr. Ramsey): Will you point to physical Exhibit 117 to the condenser?

The Witness: The condenser is this plate (indicating) or properly the tubes that are attached to this plate, and they go—loop back and forth and then lead to this (indicating) as you see in the drawing, this tube here between the plates and the liner.

Q. Why do they call that a condenser?

A. Because its function is to condense the volatile refrigerant which evaporates in the secondary evaporator.

Q. It might be helpful if you would explain briefly the manner in which it evaporates in connection with that secondary circuit.

A. The refrigerant is sealed within this system of tubing [1338] which includes the evaporator around the liner and the condenser on this secondary plate. The refrigerant having been condensed flows through the center where there is a C leading in this vertical tube, goes down to the bottom and

(Testimony of Glenn Muffly.)

that is a path for liquid to flow from the condenser down from that out into these tubes, and as it evaporates it becomes lighter, the bubbles help it to rise, so it flows up again, and that vapor or mixed vapor and liquid passes into the condenser at the top and by gravity flows down here as it condenses. That is cooled by contact with this primary plate, which is way down below, zero, being just as cold as the evaporator that cools the freezer.

Q. Does the refrigerant ever leave that secondary circuit?

A. No. That refrigerant is sealed within this system of tubing and remains there for the life of the refrigerator.

Q. Will you next consider Element 9?

The Court: Before you do it, I was wondering: Opposite Element No. 5 you say "No. Is a function of thermostat." Opposite Element No. 6 with reference to the Potter and Bronaugh you say "No. Is a function of expansion valve." Is a expansion valve and a thermostat the same thing?

A. No; they are two separate things. In the Potter patent it is maintained at the—freezing compartment temperature is regulated by the expansion valve and the cooling compartment temperature is regulated by the thermostat 31. And in that [1339] Mr. Potter is more or less correct.

The explanation of why, he says that the expansion valve determines the pressure at which refrigerant evaporates in his freezer evaporator and, of course, having a pressure at, say, five pounds—that's

(Testimony of Glenn Muffly.)

some 8 below zero—that determines that any refrigerant which evaporates in that coil evaporates at 8 degrees below zero.

So he is correct in saying that that expansion valve setting determines the temperature at which the refrigerant evaporates in the coil. He is not quite correct in saying it determines the temperature of the compartment adjacent because that would depend upon what they put in it in heat.

Now, after this is cooled and the refrigerant flows into that upper compartment, the evaporator 25, ultimately that would also come down to 8 degrees below zero and he has no control on that itself, but he does have a thermostat near it, and that stops the system before you freeze the materials in the upper compartment. [1340]

Q. Considering element 9 of the claim on 114-A, would you read it?

A. I will read it to you. Item 9 refers to volatile refrigerant circulating through said expanders being the sole heat-extracting medium.

Now, on the right-hand side I have said “Yes” because there was only one refrigerant in the Potter refrigerator, and it is the sole heat-extracting medium. At the left I have marked it “No” because there are two refrigerants in two separate systems in the Admiral refrigerator.

The Court: When you refer to the left you refer to Admiral, and when you refer to the right you refer to Potter; is that not right?

(Testimony of Glenn Muffly.)

The Witness: Yes. I sometimes forget to mention the names.

The Court: The record will so show.

The Witness: Yes.

Mr. Ramsey: I wonder if we can refer—did you finish your answer, sir? A. Regarding No. 9?

Q. Yes. A. Yes.

Q. I wonder if we can refer to 114-B.

The Court: Have these been admitted?

Mr. Ramsey: They have all been admitted. First off, [1341] would you please say under whose directions these several Exhibits 114-A to 114-L were prepared?

A. They were all prepared under my direct supervision. I made the original sketches and checked the work of the draftsmen, and I added these notes at the right and the left to indentify and the lead lines that point to the various parts of the Admiral at the left and Potter at the right.

Q. This one refers to Claim 4 of the patent in suit? A. Yes.

Q. Without repeating yourself too much and commenting only on the points of difference between Claim 4 and Claim 2, would you explain your legends and your interpretation of Claim 4?

A. Yes, the first items are identical, and the difference between these two claims is mainly down here in Item 10 which we touched on only as a thermostat on the first chart. This has under the Item 10 thermostat, and at the left we first say "Yes" for the Admiral and "Yes" for the Potter

(Testimony of Glenn Muffly.)

because there are thermostats. There is a thermostat in each, but the next section of that reads, "Responsive to the temperature of said cooling compartment and controlling the on-off cycles of said liquefying unit in response to said temperature." I have marked it "Yes" at the right for Potter. I have marked it "No" at the left for Admiral.

The reason is that this thermostat that is [1342] not within the cooling compartment but back of it responds to the liner temperature. That would be the nearest equivalent of thermostat 31 of Potter. That is the thermostat which controls temperature of the main compartment, but that thermostat does not control the system in the base, the stopping and starting.

In Potter the thermostat is a switch that stops and starts the motor. In the Admiral this thermostat is effective in opening and closing a valve which determines whether or not the secondary is cooled.

Q. I wonder if we might have physical Exhibit 117-A brought over so that the jury can see it and you can point out the physical parts.

(Physical exhibit referred to produced before the jury.)

Q. Can you point out on that physical exhibit physically where is that thermostat you are talking about?

A. This valve which does the controlling of the secondary system is in the tubing, and we see it

(Testimony of Glenn Muffly.)

here (indicating). Now, the location in the drawing in the Admiral refrigerator in the middle just above the green coil of the primary plate you see this device here. It is an electrically operated valve. That electrically operated valve is here on the tubing at the back adjacent to the primary plate of the Admiral assembly which goes with the primary system 117-A [1343] exhibit. Does that answer the question?

Q. Yes. Would you comment and read, the first line says, "Responsive to the temperature in the cooling compartment." To what is that responsive in the accused device, Admiral?

A. In Admiral that is responsive to this thermostatic bulb that is located adjacent to the secondary coil that cools the main food compartment. It is located outside of the coil but against the wall of it.

Q. Which compartment are you pointing to?

A. I am pointing to the main food compartment in the Admiral refrigerator, and that bulb controls a thermostatic switch that in turn controls the valve. I think maybe you want me to speak of the other bulb on the freezer?

A. Yes, that is right.

Q. Now, the bulb in the drawing of the Admiral refrigerator, we see at the top a heavy black line that runs to the left back of the freezer liner, and that connects with a little box here that indicates a thermostatic control that opens and closes the electrical circuit that goes to the motor inside of

(Testimony of Glenn Muffly.)

this sealed unit. That is a motor compressor unit, so the temperature on the back of the liner of the freezer, in other words, this location here, on this controls that valve. The reason you do not see it here is that the electrical part is not mounted. There is an electrical coil surrounding this solenoid, this valve—it is called [1344] solenoid—that is connected with a switch that responds to the temperature of the bulb, responds to the freezer temperature.

Q. Now, the last element or the second in No. 10 you have a marking of "Vague." Would you explain that?

A. Yes. That refers to thermal insulation around said cooling compartment having less resistance to flow of the heat thereto from the outside atmosphere than does the thermal insulation of the freezing compartment. That is the first part of that block of "Vague." Now, that is vague for the reason that it does not specify whether they are talking about the total heat that flows in or the heat that flows through a given square foot of wall, and so we do not know. We do know from general proportions that more heat does flow in total amount of heat into the upper compartment that flows into the lower compartment.

In the Admiral it is likewise true, there is more heat flows into the cooling compartment than flows into the freezer for the reason it is so much larger, so much more wall.

Now, the balance of that, reading this last part

(Testimony of Glenn Muffly.)

of Claim 4, the last phrase of it, "To insure starting of said liquefying unit by heat flowing into said cooling compartment during an off-cycle of said liquefying unit before the temperature in said freezing compartment approaches [1345] a non-freezing value."

I have marked that "Vague" because that infers, that wording infers that because this thermostat is in the cooling compartment you insure cooling of the freezer, and that is incorrect as I will explain.

Q. Give your explanation.

A. The vagueness merely prevents us from applying it to the Admiral, but we do know that the thermostat is not in the same place so that this cannot apply to the Admiral having no such thermostat in the food compartment.

Q. Does that complete your answer?

A. I might go ahead to say why.

The Court: Go ahead.

The Witness: This Potter refrigerator, as Mr. Potter discovered a little later, if you set it on a back porch, as many people did in the early days of electric refrigerators, and the weather goes down to about 50 degrees and you have this bottom full of frozen food, the frozen food will thaw out. Now, that is a mystery to many housewives and to the public as to why a refrigerator that makes ice rapidly on a hot day fails to make ice on a cool day. There is a natural reason. If this thermostat in the

(Testimony of Glenn Muffly.)

Potter refrigerator which controls that temperature to around 40 degrees is only operated every five or six hours or maybe skipping a whole 24 hours because the weather, the room— [1346] ambient atmosphere we call it—is just as cold as the inside, almost as cold as the inside of the refrigerator, so it don't have to start often enough to keep the frozen food frozen, and you have a condition of a failure to maintain frozen foods.

Later, after some experience in production, there was another thermostat put in Potter refrigerators. We do not see it here.

Mr. Cuningham: If your Honor please, I move to strike the word "later" from the answer. "Mr. Potter discovered it later," I don't know how he knows this, how he knows when Mr. Potter discovered it, how he knows Mr. Potter discovered it.

The Court: Do the two thermostats appear in the Bronaugh and Potter specifications or drawings?

The Witness: No, no.

Mr. Cuningham: Yes, your Honor.

Mr. Byron: Don't interrupt the witness.

Mr. Cuningham: I am sorry.

The Court: That is a question of fact. Go ahead.

Mr. Ramsey: May we refer now to 114-C and very shortly thereafter D.

(Exhibits referred to produced before the jury.)

Q. (By Mr. Ramsey): This exhibit reads,

(Testimony of Glenn Muffly.)

“Claim 2 does not [1347] read on Amana.” On the left is a picture marked “Amana.” On the right is the patent drawing of the patent in suit. Are you familiar with the Amana refrigerator?

A. Yes.

Q. The accused device? A. Yes.

Q. Does that sketch pictured on the left-hand side correctly portray it? A. It does.

Q. Does your analysis of Claim 2 of the patent in suit with regard to Amana correspond to your analysis of the Admiral? A. It does.

Q. Do you have any further comment to make?

A. Amana and the Admiral are substantially the same so far as we are concerned with this.

Q. Will you next refer to 114-D? Are you familiar with 114-D? A. Yes.

Q. It is marked, “Claim 4 does not read on Amana,” and shows the Amana structure and the Bronaugh. If I were to ask you the same questions with regard to 114-D as relating to Amana that I did with regard to the Admiral structure, would or would not your answers be the same?

A. My answers would be the same. [1348]

Q. Thank you. Let us proceed to 114-E. On this, on the left-hand side is the Anderson patent 1,439,051, and the other the Potter or patent in suit. Will you explain this quite briefly and describe the legends and the reasons for your conclusions?

A. Yes, that first No. 1 is obvious; both cabinets. No. 2, a cooling compartment, it points in the An-

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derson to the compartment 6. It points to the right to the compartment 14 of the Potter.

The next item, No. 3, a freezing compartment, the lead line pointing to Anderson's compartment 7 and the lead line pointing to the right to Bronaugh and Potter's compartment 13, which includes 12, 12 being within 13. The thermal insulation points to the left, an insulated wall of Anderson, and to the right to the insulated wall of Potter. It is around said compartments, and it insulates them apart.

Item 5, a cooling refrigerant expander having heat-conducting surfaces within said cooling compartment, and that points to the coil that is wrapped around the, back and forth, coil 40, which is on the rear wall, on the side walls and on the inside of the liner of the main food compartment 6, and at the right this cooling refrigerant expander is the coil 23 within Potter's compartment 14. Below that we have a phrase saying: [1349]

“Constructed and arranged to maintain its heat-conducting surfaces at a temperature above 32 degrees F. while withdrawing heat from said compartment whereby air in said cooling compartment is cooled thereby to a temperature above 32 degrees F. and is maintained at a humidity whose relative value is at least 100 at 32 degrees F.”

This merely says at the left same as Potter, at the right same as Anderson. That means the effect is the same. They both have cold inside of the food

(Testimony of Glenn Muffly.)

compartment. They both operate at a frosting-defrosting type of cycle. They are both quite high in humidity, and, so far as this wording is concerned, they are the same.

Below that was 6, "a freezing refrigerant expander having heat-conducting surfaces within said freezing compartment," points to coil 22 at the right for Potter and to the left the coil 34 within the freezing compartment 7 of Anderson.

Below that, a single liquefying unit associated with said expanders and constructed and arranged to contain refrigerant expanded by heat extracted from both said compartments.

"Yes" on both sides because this cooling is continuous throughout the freezer cooling system, through the main food space cooling compartment and back of the compressor. [1350]

A. I pointed to Anderson, and I now point to Potter, and the same thing is true. The coil goes into a freezer coil after and expands in series to coil 23 within the main food compartment, the coil returning then to the compressor.

Next, Item 9, a volatile refrigerant circulating through said expander, being the sole heat-extracting medium.

I marked it "Yes" on both sides because it is one refrigerant circulating through both of these refrigerators.

And the last item, a thermostat responsive to a temperature in one of the compartments controlling the operation of the liquefying units. On the

(Testimony of Glenn Muffly.)

right we say "Yes" for Potter and point to the control 31 which is located in the warmer compartment 14. At the left we refer to page and line of the specification of Anderson which tells us that there is a thermostat mounted on a vertical member between the two doors within this warmer compartment, so Anderson put his thermostat in the same location that Potter had his thermostat, in the warmer compartment.

Q. I was referring to 114-F. The title of this exhibit is "Anderson in '18." It portrays all the Potter Claim 4, and this is a parsed form of Claim 4. You have previously described the functions between Claim 4 and Claim 2. With that in mind, will you describe this exhibit, please?

A. This substantially duplicates the other chart, the [1351] previous chart, but when we get down to the bottom where we had this additional wording and that refers to insulation relationship between the two compartments, it is marked "Vague" on both sides because the words themselves are vague, do not tell us exactly how that is done, but in either of these it is true that heat will leak into the warmer compartment faster than it leaks into the colder compartment. That is because there is so much more wall area, and it will leak into the warmer compartment than leak into the freezer, and in both cases they put the control in the warmer compartment. [1352]

Q. (By Mr. Ramsey): May we pass now to

(Testimony of Glenn Muffly.)

Defendants' Exhibit 114-G. This is "Gibson filed before B & P" is like Potter Claim 2.

The Court: Like Admiral.

Mr. Ramsey: Like Admiral. Pardon me. Claim 2 on the left is the Gibson patent Reissue 21,941; on the right Admiral. Would you please explain—do you know the operation of the refrigerator shown in the Gibson patent? A. Yes.

The Court: Which one is it?

Mr. Ramsey: Will you please explain that to the jury?

Mr. Cuninghame: If your Honor please, may the record likewise show the subtitle and I quote, "Claim 2 Bronaugh-Potter Re. 23,058"?

Q. (By Mr. Ramsey): That's the patent in suit, is it not, Mr. Muffly?

A. That's Potter patent in suit 23,058. It identifies the wording that this is Claim 2 from the patent in suit.

The Court: I don't understand that.

The Witness: It refers to a small wording at the top that says, "Claim 2 Bronuagh and Potter Reissue 23,058." That is the wording of this claim and it's marked at the top—should be—on the chart. That's merely the identification it records.

Q. (By Mr. Ramsey): Similar to the title on all the exhibits? A. They are marked. [1353]

The Court: All these legends and these statements were prepared by you?

A. That's right.

The Court: You merely took the patent and re-

(Testimony of Glenn Muffly.)

produced them on these various sheets except with Admiral and Amana, and you reproduced a copy of the box on the left-hand side of the sheet?

A. That's right.

The Court: All right.

The Witness: And added the notes of "Yes" and "No" and explanation. But the material in the center is word-for-word of the claims in suit. We used Claim 2 and Claim 4 as typical, thinking it would be unnecessary to do the same thing with 1 and 3.

The Court: And are you now comparing Bronaugh and Potter Claim 2 with Gibson and with Admiral?

A. Correct. I am using Claim 2 of Bronaugh and Potter patent to show how these—this claim would read on Admiral and to what extent and that it would also read on Gibson.

The Court: All right.

Mr. Byron: You mean to show how these claims will or will not read?

A. I said to what extent what portion of the claim would fit each. It does not read 100 per cent, but it does show the similarity of Gibson and Admiral. The Gibson patent [1354] and Admiral refrigerator are substantially identical in principle.

Q. (By Mr. Ramsey): Would you explain the operation of the Gibson patent? A. Gibson?

Q. How it operates?

A. Yes. The Gibson patent, Reissue 21,941, shown at the left of the chart has, commencing at the base

(Testimony of Glenn Muffly.)

with the condenser colored red, a tube leading up to the upper compartment where we see some green tubing. That is the evaporator within the freezing compartment which is the upper compartment of Gibson. This green portion constitutes the evaporator of the primary system and the suction tube leads—leads from it at 55—the tube is numbered 55 near the compressor at the base.

Compressor 60, that is a suction line completing the circuit—the primary circuit just as we trace the primary circuit in red and green on the Admiral.

Now, in addition to that there is an evaporator which surrounds the liner of the main food compartment 26 of Gibson and that coil is marked 27, and that coil is an evaporator of the secondary system and it does the work of cooling this liner which is known as the cold wall type of refrigerator.

The vapor from the evaporator goes up and down [1355] through this coiled tubing which is colored yellow, that constituting the condenser of the secondary system, and the liquid runs back down and again circulates around the liner to cool the main food compartment. That type of refrigerator is the Frigidaire cold wall. Mr. Gibson is with Frigidaire.

Q. Would it help you to refer to 114-N that you have previously used to illustrate your point?

A. Yes. This is another drawing from the Gibson patent. The drawing we have here shows the refrigerator as a whole. This is another drawing

(Testimony of Glenn Muffly.)

from the same patent. It shows a liner and tubing surrounding the liner and leading up, and that corresponds to this exhibit, Admiral Exhibit 117.

The cold wall is a liner which is surrounded by this tubing 68 coming up through the tubes 83 and 78, which lead to and from this coil 80 which is cooled by the primary refrigerant in the freezer. Liquid runs down and around and evaporates and comes up condensed again. That is one of the very well known refrigerators.

Q. Now, following that explanation, Mr. Muffly, will you discuss this 114-G which is on the easel?

A. Yes. Taking this Gibson refrigerator at the left and the Admiral at the right, and comparing how this claim would read on them or failed to read on them, we have the cabinet, both sides, cooling compartment on both sides, freezing [1356] compartment on both sides, thermal insulation on both of them, a cooling refrigerant expander "Yes"—or there is an expander pointed to, but the next line saying "Surfaces within the cooling compartment," it is "No" on both sides because that coil is not in the cooling compartment in either the Gibson refrigerator or the Admiral refrigerator.

And Gibson is Mr. Gibson of Frigidaire, not the Gibson refrigerator. There is a make of refrigerator called Gibson. This item continues "wherein constructed and arranged to maintain heat conducting surfaces above 32," of Drawing 8, "whereby the cooling compartment is cooled thereby" and they have a humidity value.

(Testimony of Glenn Muffly.)

Now, that again is over here in the right, and it says "No. It's a function of the thermostat." Now, we have covered that before in connection with Admiral, that this temperature—and what the evaporator does is a function of the thermostat rather than of the way you make the vapor itself. Having an evaporator you can run it either warm or cold.

At the left is a little different because Mr. Gibson provided a different means for controlling his temperature and he had it explained in his patent specification, the reference being to page 2, Column 1, Line 58-62. There is air injected into the system which gives him a limiting factor of control. [1357]

Q. You might explain a little more the air injected in what manner?

A. The chart of the secondary system consists of a refrigerant such as F-12 with some air or noncondensable gas added to it. That is done sometimes to change the characteristics of a refrigerant and mix something with it.

Q. It is your contention, I gather, that that mixture is the thing that produces the effect of the maintenance of temperature in Gibson?

A. Yes. That is as explained in the Gibson patent.

The Court: Gibson patent is described on the left-hand side of the sheet and Admiral on the right-hand side? A. Yes, Yes, right.

Now, there is a difference at the next step: "A freezing refrigerant expander having heat conduct-

(Testimony of Glenn Muffly.)

ing surfaces within said freezing compartment." At the left it says "Yes" for Gibson because obviously this freezing refrigerant expander is within the freezing compartment, whereas at the right I have said "No" because the Admiral freezing refrigerant expander is outside of the freezer—the freezing compartment.

Then the one about "constructed and arranged to maintain heat conducting surfaces at certain temperatures" and on both sides I have said "No. It is a function of"—at the right for Admiral "a function of the thermostat." [1358] And that is the thermostat that controls the freezer temperature by stopping and starting the motor compressor.

Now, at the left "No. Is a function of low pressure switch." Now, it happened that Mr. Gibson showed a different type of thermostat and it's known as a low pressure switch. It does the same thing but it does it without having any bulb above here in the freezer. The principle is an old one. It's done by the pressure of the suction vapor as it comes back to the compressor, and that reflects directly the temperature of the refrigerant in the freezing evaporator.

Item 7 "Volatile refrigerant in said expanders," yes, there is volatile refrigerant in both expanders. But when it comes to a single liquefying unit associated with said expanders, we have—I marked it "No." There are two both at right and left because both in Gibson and in Admiral there are two con-

(Testimony of Glenn Muffly.)

densers, one in the base of the cabinet and in one that is cooled by the primary evaporator—that is, in the secondary system that cools the main food compartment.

Q. Do you have any reference characters for that?

A. The secondary condenser of Gibson is 80. The secondary condenser of the Admiral is the portion with the yellow color on the the rectangular plate we have been referring to before.

The Court: I think we have been going now for an hour [1359] and 20 minutes, and this is a good time to take a short break. Take a recess for about 10 minutes.

(Whereupon the jury was excused for a recess.)

(The following proceedings were held out of the presence of the jury:)

The Court: In this legend that you have here, “Gibson filed before B & P” is like Admiral. I was just going to ask you a question. If Admiral follows Gibson but Gibson and Potter anticipate each other, can Admiral be exonerated by reason thereof if Potter proves the date of his invention was prior to the filing date of the Gibson?

Mr. Byron: Well, there are two entirely different types. First may I explain—two entirely different types of refrigerator. The Admiral and the Gibson are cold wall type of refrigerators, whereas

(Testimony of Glenn Muffly.)

Bronaugh and Potter patent are the finned coil type. Now, then, if the claims in the Potter patent were broad enough to cover Admiral they would likewise cover Gibson—that's an answer to your question—assuming that Bronaugh and Potter patent is earlier in conception reduction to practice to Gibson. But we are citing, comparing these two because they are two entirely different types and recognized as different types, and our position is that the claims of the patent in suit do not read on Gibson and they do not read upon Admiral for the same reason. [1360]

The Court: Yes. But then you don't cite Gibson as anticipating——

Mr. Byron: That's right; we do not.

The Court: ——Bronaugh and Potter. That's what I wanted to know.

Mr. Byron: Yes.

The Court: Now, I would like to find out something else. Mr. Muffly says that Item No. 5 in Claim 2, for example, doesn't read on Potter. I mean, it's a misdescription. What does that mean? What does it mean when it's surplusage or it's incorrect? Does that invalidate the patent?

The Witness: Well, I am not qualified——

The Court: I am not talking to you. I am talking to Mr. Byron.

Mr. Byron: Well, I was thinking that the witness was going to answer, and I wasn't paying too much attention, your Honor, or I want to make sure that I do have the question.

(Testimony of Glenn Muffly.)

The Court: The question is, Mr. Muffly testified that Item No. 5 in these exhibits—earlier exhibits, which is a portion of the claim of Potter—

Mr. Byron: That's right.

The Court: —is incorrect and when applied to the structure of the Bronaugh doesn't mean anything.

Mr. Byron: That's right.

The Court: All right. Now, the question I am asking, [1361] assuming that to be true, does that invalidate the Bronaugh-Potter patent?

Mr. Byron: Yes, it does, because it's a functional statement and it's an incorrect statement, and invalidates that claim.

The Court: Leave out the functionality of it.

Mr. Byron: That claim is indefinite and non-descriptive and therefore invalid.

This is Title 35, Section 112 of the statute.

The Court: I know the statute requires it to be set out definitely and with precision and all that, but suppose they describe a function or a purpose that is immaterial actually because Mr. Muffly has already testified that he could construct a box from the description and the drawings of the Potter. He said he could make a box.

Mr. Byron: Yes. But it wouldn't be the box as interpreted by Potter and as claimed by Potter, and it wouldn't be—for example, if Mr. Muffly were going to construct a box based upon the drawing of the patent in suit, he wouldn't have any finned coils in there. As he has said, he would have something

(Testimony of Glenn Muffly.)

else, a brine tank, because he doesn't know what those—that rectangle is sticking up there means and nobody else would know, according to Mr. Muffly.

Therefore he could construct something but it might be incorrect on his interpretation. [1362]

The Court: And is it your point that if Mr. Muffly would construct according to the specifications and the drawings it wouldn't be the box described in the claims?

Mr. Byron: That's right; it would not be.

The Court: But, Mr. Cuninghame has said that, of course, they didn't describe finned coils because they didn't even claim it and their claim is broader by reason of the fact that they didn't claim finned coils.

Mr. Byron: But they do not claim any structure which will do that. That's the point.

The Court: They don't claim where, in the claims or in the——

Mr. Byron: In the specifications they do not and in the drawings they do not. They do not describe any coil constructed or arranged in any manner to produce those results. That's the point.

The Court: Now, that comes to my next point: What is the correlation between the drawings, the descriptions, and the claims? Now, Mr. Cuninghame has submitted a form of instruction which says that the patent is made up of these three items. It's been approved by Mr. Kolisch and Mr. Lucas, they both approved that instruction. Now, Mr. Parker said,

(Testimony of Glenn Muffly.)

when he looked at that drawing, he could see that it is a finned coil or such. Now, is a finned coil necessary, or some similar structure necessary in order to maintain the [1363] validity of the patent in suit?

Mr. Byron: It is, yes, sir.

The Court: Why?

Mr. Byron: Because otherwise there is not the proper disclosure of it. Now, just let me read this one section again. This is Section 112.

“The specification shall contain”—and this is mandatory——

“The specification shall contain a written description of the invention and of the manner and process of making and using it in such full, clear, concise and exact terms as to enable any person skilled in the art to which it pertains or with which it is most nearly connected to make and use the same and shall set forth the best mode contemplated by the inventor of carrying out his invention.”

Now, this section is related directly and to nothing else but the specification, the description in the patent.

The Court: Will the Potter box do what Potter said it will do in his claims without the finned coil?

Mr. Byron: No, it will not, just like Anderson. But I might go on to say about Anderson, by virtue of his larger coils and more expansive coils, longer,

(Testimony of Glenn Muffly.)

he will accomplish the same results as though he did have finned coils. [1364]

The Court: Well, what about that? Does that make Anderson anticipate because he arrives at the same result in a different manner?

Mr. Byron: Yes. Exactly the same manner.

The Court: I thought you just told me it's a larger box.

Mr. Byron: Oh, no. I said the coils are larger.

The Court: Larger area allows more heat inflow in a freezer in warmer room temperatures?

Mr. Byron: See, these coils, your Honor, are much larger in the Anderson box, Defendants' Exhibit 115, than the coils which you cannot see in the Potter box.

The Court: What about that? How about that identity rule for infringement?

Mr. Byron: Yes. The identity are these: There must be identity of structure, identity in functioning, and identity in result.

The Court: Does that apply—that doesn't apply?

Mr. Byron: That applies only to infringement.

The Court: Well, how about the validity and anticipation?

Mr. Byron: I mean, to find infringement you have got to find identity in structure—that is, substantial identity in structure, substantial identity in functioning, and substantial identity in result.

The Court: And are you of the opinion that I should [1365] instruct the jury that if from an ex-

(Testimony of Glenn Muffly.)

amination of the description and the drawings a person skilled in the arts in 1929 or '31 would not have known that Potter had in mind a finned coil, then they must find the patent invalid?

Mr. Byron: That's right.

The Court: Is that correct, Mr. Cuninghame?

Mr. Cuninghame: Your Honor, I am not trying to evade, but I would like to have the question read. I'm sorry.

The Court: Will you read that question to Mr. Cuninghame?

(The Court's question propounded to Mr. Byron above was read.)

Mr. Cuninghame: Your Honor, a finned coil or its equivalent, because it's not limited to a finned coil. I would agree with that. The testimony is——

The Court: A finned coil or similar device?

Mr. Cuninghame: Yes. Brine tank or cold surface; extended surface is the best term I can now think of.

Mr. Byron: It's not in the claim.

Mr. Cuninghame: I think it is.

The Court: Assume something is disclosed in the drawing which is not disclosed in the description, what about that?

Mr. Byron: Then it's void, absolutely. The statute is mandatory on written description in the specifications.

The Court: Well, what about this question of comparative insulation which was put into the speci-

(Testimony of Glenn Muffly.)

fication some two or [1366] three years later? I understand from Mr. Muffly that the original drawing showed it and he could have constructed as follows—constructed a box with this differential insulation, but it's not shown in the description. Am I correct in that?

Mr. Byron: That's right.

The Court: All right. Now, what does that mean?

Mr. Byron: And it wasn't claimed either. It means that there is late claim. They claimed here more than two years after a device with this differential insulation was made and sold and thereafter by virtue of this late claiming those claims are invalid on the differential insulation.

The Court: And does that make the patent void?

Mr. Byron: Yes, it does, as to those particular claims calling for the differential insulation, Claims 3 and 4. [1367]

The Court: What should I submit to the jury?

Mr. Byron: Well, if they find that this Potter display embodying the differential insulation was sold more than two years, made and sold more than two years prior to the time of that amendment—

The Court: Wait a minute. The record shows that it was inserted more than two years after the first filing.

Mr. Byron: Then that is sufficient to invalidate—

The Court: You claim that you are entitled to that as a matter of law?

Mr. Byron: That is right.

(Testimony of Glenn Muffly.)

The Court: What about that, Mr. Cuninghame?

Mr. Cuninghame: I feel, your Honor, I think that is 150 per cent wrong.

The Court: It just has to be 100 per cent wrong.

Mr. Cuninghame: The reason I say 150 is because I think it is clearly wrong on the law. The Muncie Gear case—and I hope to have a memorandum and a very brief one on it—is the chief one that is relied upon by Mr. Byron. It boils down to this, your Honor, that it is a matter simply of the disclosure, original disclosure, and, of course, and everybody knows this, you can change a claim as you come within that. The Muncie Gear case, in that case they added a lot of new matter, and that is not true in this case.

The Court: Do you have any authority to indicate that [1368] you can at a later time after the expiration of two years include in the description matters which were shown in the drawings but which were not set forth in the description?

Mr. Cuninghame: Oh, yes, your Honor; and, furthermore, it is not only the specification and the drawings, but it is the original claim that are a part of the specification, and there is another angle——

The Court: Well, as I understand it, they did not claim differential insulation in the earlier claims.

Mr. Byron: That is correct.

Mr. Cuninghame: It is not a matter of claiming, your Honor. I did not mean to make a confusing statement. I say that a claim which is supported

(Testimony of Glenn Muffly.)

by the drawing, the specification, or by the original claims.

The Court: Do you use the word "or"? Did you say "or"?

Mr. Cuningham: I did, sir.

The Court: Very well.

Mr. Cuningham: Well, I think the word "or" is right and also if it shows that you are claiming it—that is perhaps not too clear——

The Court: Will you give me a case some time today, any time today, but just give me a case to support you? Perhaps Mr. Cheatham can find a case.

Mr. Cheatham: We have thought about it. We have been so busy. It is a question of [1369] getting——

The Court: Give a citation. All I need is a citation.

(Discussion off the record.)

Mr. Cuningham: We will, sir.

The Court: We will take about a five-minute recess.

(Short recess.)

(Thereupon, the jury returned from recess and the following proceedings were had in its presence.)

GLENN MUFLY

a witness in behalf of Defendants, thereupon resumed the stand and was examined and testified further as follows:

Direct Examination

(Continued)

By Mr. Ramsey:

The Court: I discussed with counsel the question that was propounded by one of the jurors, I think Mr. Duyck, as to whether the members of the jury had the privilege of asking a witness a question. Now, ordinarily, we try to discourage this sort of thing because usually the lawyers bring out everything that should be brought out, but sometimes they make mistakes, and, as you have noticed, I have asked questions from time to time because I was not clear on some of the things that the witness was testifying to, and it was for that reason I discussed this with counsel for both [1370] plaintiff and defendants, and they said it is perfectly all right if someone has a question that they would like to ask a witness, that they may do so. Just state to me the question that you want to ask, and I will listen to the question, and then I will determine whether it is proper, a proper question, or not.

Juror Duyck: My question, your Honor, was academic rather than something I had in mind.

The Court: If Mr. Muffy is here after you decide the case, then you can talk to him, but do not talk to him before the case is over. Go ahead, Mr. Muffy. You were discussing, I believe, Gibson.

(Testimony of Glenn Muffly.)

The Witness: Yes, right.

Mr. Ramsey: 114-J.

The Witness: And I was pretty well along with the comparison. I had, was just on explanation of the, I think that this control of the Gibson refrigerator was different but accomplished the same thing that we had in the Admiral by having a bulb up here responsive to the temperature of the freezer and that control is the control that starts and stops the motor.

Now, Gibson has a control that starts and stops the motor, but it has no bulb up here in the freezer, but it is just as good as having a bulb because it is connected to the freezer line that is part of the suction that goes [1371] back up there so it reflects the temperature of the refrigerant that is inside of the primary evaporator itself, so it is just as if the whole primary evaporator were made into the bulb of this control down here, so in both cases the sensing of the temperature of the freezer is the thing that controls the starting and stopping of the motor.

Now, they both have control but a different type of control of controlling the secondary. In the Admiral there is a sensing device that is on the outside of the liner of the main food space that reflects temperature of the main food space, and that operates a switch, and the switch in turn operates a valve that starts and stops the cooling of the secondary system that surrounds the liner of the main food compartment.

Q. Referring to 117, Exhibit 117?

(Testimony of Glenn Muffly.)

A. Referring to Exhibit 117, yes, where we see those coils. Now, this—we have gotten down here to the point that on this side is a function of the low-pressure control here with the thermostat, and then we come to a volatile refrigerant in the expander. I have said “Yes” both sides because there is volatile refrigerant, but at the next point, a single liquefying unit, the answer is “No” to Gibson and “No” to Admiral because each has two liquefying units, the primary system liquefying unit in the base, the secondary liquefying unit is the yellow coil of the Gibson within that tank. The coil [1372] is marked 80, and in Admiral we have this yellow coil on the plate of the secondary condenser.

Now, the next item, No. 9, which says “No” for both Gibson and Admiral because one volatile refrigerant circulates through said expanders, circulating through said expanders, is not the sole heat-extracting medium. There are two volatile refrigerants, both heating and extracting mediums, so in that respect Gibson and Admiral are alike.

The thermostat responsive to the temperature in one of said compartments, this claim does not specify which of the compartments controls the liquefying unit. Well, now, in both Gibson and Admiral there is a thermostat that starts and stops the motor that drive the primary compressor so the answer is “Yes” for both.

Q. Have you completed your explanation of that to the jury? A. Yes.

(Testimony of Glenn Muffly.)

Q. I wonder if we might have Exhibit 114-H?
(Exhibit referred to produced.)

Q. This covers Claims 4 and refers to the Gibson-Admiral drawings as part of Claim 2 in suit. Will you treat that the same as you did the others without repeating the parts that are common in Claims 2 and 4?

A. Claim 4 reads on Gibson and Admiral alike until we get down here to the thermostat, and it says, "Responsive to the temperature in said cooling compartment." [1373]

Now, the answer is "No." I have marked it "No" on both sides because neither Gibson nor Admiral has a thermostat responsive to the temperature of the cooling compartment to control the on-off cycles of said liquefying unit, being the primary liquefying unit.

In both Gibson and Admiral that control of the liquefying unit is in response to the temperature of the primary or freezer.

Then a continuation of that goes into the thermal insulation, around the cooling compartments, and so forth, and that is marked "Vague" on both sides. It don't make no sense to me, but whatever it does say, it applies to Gibson just the same as it applies to Admiral, to the same extent.

Q. Have you completed? A. Yes.

Q. Do you remember the exhibits that you prepared and identified, that were identified and introduced as 114-I and 114-J, comparing Gibson to

(Testimony of Glenn Muffly.)

the Claims 2 and 4 of Bronaugh and Potter and Amana? A. Yes.

Q. Could you say whether your answers are the same with regard to Amana as you have answered with regard to Admiral?

A. That would be the same.

Q. We will skip that explanation. May we have 114-K? [1374]

The Court: 114-K?

Mr. Ramsey: Yes, 114-K.

(Exhibit referred to produced.)

Mr. Ramsey: And might we have the Larkin Patent, Exhibit 106?

The Witness: I have a copy of it.

(Discussion off the record.)

Mr. Ramsey: This is a comparison drawing of Anderson, 1,439,051; Larkin, 1,776,235, and the patent in suit, 23058. Would you first explain the Larkin patent to the jury?

A. The Larkin patent has several drawings, one of them being of a long showcase with cooling elements in each end, and on this chart, 114-K, we have just one figure, Figure 3, showing one of those cooling elements, and the Larkin patent has to do with the cooling element. This is in Figure 1. It merely shows that kind of a refrigerator, that cooling element, that kind of a refrigerator that that cooling element might be put in.

(Testimony of Glenn Muffly.)

Q. Does he refer in the specification to household refrigerators?

A. Yes, he says, "This invention relates to refrigeration in general and particularly to cooling units adapted for use in display case refrigerators, refrigerator cars, storage rooms, household refrigerators, etc."

Q. Where are you reading? [1375]

A. I am reading from Page 1, Lines 4 to 8, inclusive.

Q. Would you continue your explanation of the Larkin patent?

A. Larkin was in the business of producing this finned coil, and he says in his patent, explaining the virtues of his finned coil, reading from Line 33, Page 1:

"* * * meats lose a great deal of weight by dehydration due to exposure to below-freezing temperature"——

And again at the bottom of that column he mentions "dehydration of the meats," and in the middle of the second column of that patent he refers to "aluminum heat-absorbing plates," or fins that are attached to the coil, and this patent goes on to explain the virtues of having this type of coil with a lot of surface, and in the middle of the chart there is a quotation that reads on Page 2, Line 113, over to Page 3, Line 15, and he reads:

"With the present type of coil properly arranged in the casing, a temperature of 36 degrees F. can be maintained in the casing without frosting the

(Testimony of Glenn Muffly.)

plates at all"—the casing being the refrigerator—"consequently without freezing or dehydrating any of the contents of the casing whatever. The very large surface area and rapid heat absorption of the [1376] aluminum plates all lead to a rapid temperature drop when the unit is in operation. Since this temperature drop is less than two degrees, it follows that each refrigerating cycle of operation must be of very short duration, and, consequently, must greatly reduce the amount of power required to maintain it in operation.

"Whatever little moisture may be picked up from the air in the casing is deposited on the plates; and, because of the large surface area of these plates, must, when condensed, be spread on such plates in a very thin film, which is constantly being removed by the circulating air and returned to the air and meats from which it was taken.

"Where below-freezing temperature must be maintained on the plates, as in prior coolers, it is obvious that any moisture taken from the meats must be condensed and frozen on the plates and cannot be removed therefrom by the circulating air. In this case the meats not only lose weight which must be recovered"—

The Court: "'* * * cannot be recovered'"—"In this case the meats not only lose weight which cannot be recovered." Didn't you say "which must be recovered"? [1377]

The Witness: "'* * * which cannot be recov-

(Testimony of Glenn Muffly.)

ered"—right—"but also deteriorate greatly in quality."

That is referring to what other people did before.

The last paragraph:

"This maintenance of humidity is only one of the most important results flowing from the use of cooling coils designed as disclosed herein."

Mr. Byron: "As disclosed herein."

The Witness: Yes, "as disclosed herein."

Q. (By Mr. Ramsey): Now, referring back to Exhibit 101, which is the file wrapper of the patent which appears in the reissue patents there, was this Larkin patent cited by the Examiner?

A. Yes.

Q. Are you sure about that?

A. No. Wait a minute, the Larkin patent, no.

Q. Do you want to look at the history?

A. I know it was not. I misspoke.

Q. Would you continue?

A. The Larkin, as I mentioned, didn't come from that source.

Q. Have you completed your explanation of the Larkin patent, or are there some other parts that you think the jury should know?

A. There is a pertinent point of the specification of the [1378] Larkin patent.

Q. Not too long?

A. Well, this is short. I am reading from Page 5, Line 87, and starting with Line 93:

"A temperature of 36 degrees F. and be main-

(Testimony of Glenn Muffly.)

tained at the center of the casing by maintaining a temperature of 34 degrees F. on the fins of the cooling units. Since this is above-freezing point, this temperature of 36 degrees can be maintained without frosting the fins."

That is an explanation of the fact that Larkin uses this extended surface to maintain high humidity, no frosting.

Q. Does that complete your explanation of Larkin? A. Yes.

Q. Going back to the final part of 101 again, which is U. S. Patent 2,056,165, I will read it to you. It may recall it to your mind. This appears on Page 88 of the file wrapper and was at the conclusion of the application and the claims submitted at that point. I am now reading:

"We now come to the final group of patents, namely, Lundgaard, 1,909,875; Curtis, 1,921,865, and Barnes, 2,002,389. In each of these patents the purpose is to prevent dehydration of food in one chamber by eliminating any frosting surface [1379] in said chamber, while in the same cabinet there is a sharp freezing chamber. In each case this effect is obtained by employing a chilling element in the colder chamber and using this element to cool air which is circulated about or through the warmer chamber. It is obvious that the new claims avoid these structures by reciting two chilling units, one in each chamber and through which a volatile refrigerant is passed."

Are you familiar with the Lundgaard patent?

(Testimony of Glenn Muffly.)

A. Yes.

Q. Could you explain how it functions, briefly?

A. We have no chart on that. The Lundgaard refrigerator, and we have only this small view (displaying document to the jury), as a freezing compartment down below, and it has a cooling compartment above, the cooling compartment being identified as 46 and up the middle of that cooling compartment is a stack or passage that conducts cold air up and down back to this cooling element in the base which is contained within the compartment 41. That is the cooling portion of the system, and it is adjacent to the freezer 26-A we see in another view. Compartments adjacent to that, 26-A and 26-B in Figure 7, are freezing compartments in the base of the refrigerator, and from that cold zone air is circulated up and back without mixing with the air in the refrigerator [1380] through a flat stack that has fins on it and a little external jacket around it so that the air circulates through the fins, over the fins within the refrigerator, without mixing with the cooling air that came up, and it is explained that this is above 32 degrees. That is the vital part of it.

Q. Do you remember the details of the other two patents cited in connection with the Lundgaard patent by the Examiner, and the only question is do they correspond generally to your explanation of the Lundgaard patent?

A. Yes, they are the same general idea.

Q. I wonder if you would refer to the Lund-

(Testimony of Glenn Muffly.)

gaard patent again, and if you would read to the jury the matter appearing in the first column of Page 1 of the patent, starting, "Furthermore, the present invention is particularly effective"—which is the last line of Column 1? A. Oh, yes.

Q. And running down to Line 74 of Column 2 of Page 1.

A. 74—no—it reads:

"Furthermore, the present invention is particularly effective in permitting the employment of low freezing temperatures in one part of a [1381] refrigerator."

Furthermore, the present invention is particularly effective in permitting the employment of low freezing temperatures in one part of a refrigerator for the preparation of ice cubes, freezing desserts, or the like, while permitting a substantially higher temperature in the food compartment without having any portion of the wall of the latter or any cooling element in direct heat transfer relation thereto at a temperature as low as freezing temperature. In other words, the food compartment may be provided with a cooler which is a relatively large heat transfer area and which therefore need not have a temperature materially lower than that at which the food compartment should be maintained; that is, substantially above freezing. Accordingly there is but little tendency for moisture to collect upon this cooler with consequent objectionable dehydration of food and there is substan-

(Testimony of Glenn Muffly.)

tially no occurrence of frost in the food compartment under normal operating conditions.”

Q. (By Mr. Ramsey): Does that describe moist cold condition in the cooling compartment?

A. It does very clearly.

Q. Now, I would like to ask you whether Lungard patent contains the following elements. Is it a household refrigerator? A. It is.

Q. Which in normal operation provides above freezing moist cold air for preserving in a refrigerated condition foods [1382] susceptible to moisture loss by evaporation? A. It has.

Q. And below freezing dry cold air?

A. Yes.

Q. And a dry cold surface for preserving foods in a frozen condition? A. Yes.

Q. Said refrigerator comprising a cabinet?

A. Yes.

Q. Having a cooling compartment?

A. Yes.

Q. And a freezing compartment? A. Yes.

Q. Thermal insulation around said compartment, thereby insulating said compartments from each other and from the outside atmosphere?

A. Yes.

Q. A cooling refrigerant expander having heat conducting surfaces within said cooling compartment?

A. That's the air circulating flue——

Q. Thank you. Constructed and arranged to maintain——

(Testimony of Glenn Muffly.)

The Court: Was your answer Yes or No?

A. A little slight differential in the use of the word "expanded"—that it's a flue in which air does flow slightly expanded. It's not an evaporator. It is in one sense an [1383] expander but it's not the kind of expander that was referred to in the patent. There is a misuse of the word "expander" in the patent. That's confusing.

Q. (By Mr. Ramsey): Does the air flow under pressure? A. Under slight pressure, yes.

Q. Is it generated by a fan? A. By a fan.

Q. Thank you. Is it constructed and arranged to maintain its heat conducting surfaces at a temperature above 32 degrees Fahrenheit while withdrawing heat from said compartment? A. It is.

Q. Does it have the functional result whereby air in said cooling compartment is cooled thereby to a temperature above 32 degrees Fahrenheit and is maintained at a humidity of the relative value of at least 100 degrees at 32 degrees Fahrenheit?

A. It does.

Q. Does it have a freezing refrigerant expander with heat conducting surfaces within the freezing compartment and constructed and arranged to maintain its heat conducting surfaces at a temperature well below 32 degrees while withdrawing heat from said compartment whereby air in said freezing compartment is cooled thereby to a temperature well below 32 degrees? A. Yes; it has that. [1384]

Q. And does it have a cooling element to take care of that freezing compartment? A. Yes.

(Testimony of Glenn Muffly.)

Q. And does it have a thermostat responsive to the temperature in one of the compartments controlling the operation of that freezing apparatus?

A. Yes. It has a thermostat.

Q. Going back to Larkin, does Larkin produce, describe, teach, disclose, moist cold? A. Yes.

Q. That is in the cooling compartment?

A. Yes.

Q. And the cooling compartment is one held around 40 degrees? A. Yes.

Q. More or less? A. Yes.

Q. Is that in the household refrigerator?

A. Yes.

Q. Now, may we take a look at the Potter patent, Exhibit 118, file wrapper?

The Court: The original Potter or the reissue?

Mr. Ramsey: It's for identification, 2,219,789.

Mr. Cunningham: This is subject to my objection, your Honor.

The Court: I don't know what one he is talking about. [1385] Is this the later Potter patent which is supposed to contain admissions?

Mr. Ramsey: That is correct.

The Court: All right. It's not admitted yet. It is marked for identification.

Mr. Ramsey: That is correct.

Q. Are you familiar with this file wrapper, Mr. Muffly?

The Court: You may take your seat, if you want to, Mr. Muffly.

(Testimony of Glenn Muffly.)

(Whereupon, the witness takes the witness stand.)

Q. (By Mr. Ramsey): You are familiar, did you say, with this exhibit and its file wrapper?

A. Yes.

Q. Would you refer to that file wrapper and find, if you can find, some words defining a cooling refrigerant expander having heat conducting surfaces within a cooling compartment?

A. The drawing of this Potter patent 2,219,789 shows a coil 51 having fins 56 in the cooling compartment 41.

Q. When was the patent filed?

A. This application was filed December 29, 1936.

Q. And when was the patent in suit filed, February 15th, 1951? Some five and a half, six years later?

A. Yes.

Q. I didn't intend to break your train of thought. You [1386] might explain the similarities.

A. Yes. This—comparing this patent with the patent in suit?

Q. No. Just briefly explain how—what apparatus is disclosed in the claim—

A. This patent—maybe I should hold that up to view. I am not reading it. It's another.

Q. You are showing them United States Patent 2,219,789?

A. Right.

This is merely the drawing and it is a refrigerator having a freezing compartment at the top and main cooling compartment below and referring par-

(Testimony of Glenn Muffly.)

ticularly to Figure 2, which is the one on your right. You can see a finned coil in the lower compartment which is the cooling compartment in this case. The finned coil in the lower compartment and a refrigerated shelf up there in the freezer are shown on the drawing.

Q. What reference number is given to the finned coil?

A. The finned coil is 51, the fins are 56, and that coil is a secondary evaporator and it is associated with the secondary condenser coil 53, which is the lower one of the two coils in this shelf and——

Q. Is the finned coil shown clearly?

A. The finned coil is shown clearly, yes.

Then this shelf that contains the [1387] secondary condenser, the lower one of the two coils, also has an upper coil which is the evaporator of the primary system. And we have a similarity here in this being like Gibson and like Admiral and Amana, there being a secondary system that cools the main food compartment and the machinery is down below.

The other view, Figure 1, is similar, but not quite so easy to follow. The primary coil is the one at the right of the Figure 1, the secondary condenser is the coil in the middle. That's still within the brine tank. And the coil outside here that is marked L and 34 and 37 is the one that cools the warmer compartment, the cooling compartment of the refrigerator.

The Court: All right. Just take your seat.

(Testimony of Glenn Muffly.)

Q. (By Mr. Ramsey): In the file wrapper 118 for identification, was this Gibson patent which you have referred to cited as a reference?

A. The file wrapper of this Potter patent, yes.

Q. And that Gibson patent number is 2,073,741, as was noted then? A. Yes.

Q. And was that cited in the first action of the examiner? I have this here. It has been?

A. I don't have it.

Q. If you want to look at it, I wish you would refer to [1388] page 25 of the file wrapper to confirm this.

The Court: Well, what do you want him to do now, Mr. Ramsey? Haven't you got some other questions you might propound to him? It's almost 12:00 o'clock. During the noon hour you can tell him what portion you want to consider.

Mr. Ramsey: That might be a very good idea.

The Court: Mr. Muffly, I wanted to ask you a question. We have been talking about finned coils, and I wasn't sure whether I understand what a finned coil is. Is this a regular coil 36 and 30? Are those coils?

A. Those are coils.

The Court: And is 51, there bars, these coils, that——

A. The fins are these vertical sheet metal attached to the horizontal running coils 51 that loop back and forth. And that is a finned coil. That's very clearly a finned coil.

The Court: I don't know if the jury all under-

(Testimony of Glenn Muffly.)

stand that. I was in doubt. They are these vertical——

A. The fins are 56 and the coil itself is 51 because that goes into the tube.

The Court: I see.

A. That goes into the tube back and forth and the fins on the coil make it a finned coil.

The Court: And they are the vertical flanges?

A. Yes. [1389]

Mr. Ramsey: Did I understand that your Honor was suggesting a break at this time?

The Court: Well, we can. This is a good time. Let's take an hour and a half for lunch.

You are now excused till 1:30.

(Whereupon, the jury was excused and the following proceedings were held out of the presence of the jury.)

The Court: Go ahead.

Mr. Cuningham: Your Honor, I am proud to be able to give you the citation I promised you.

The Court: Fine. Give it to me now.

Mr. Cuningham: I will give a couple of copies to our friends on the other side.

The Court: It's in a brief?

Mr. Cuningham: Actually, I don't know. Mr. Cheatham says he signed it.

The Court: Oh, I don't care about that. Is that in connection with the inclusion of description subsequently which is disclosed in the drawings?

Mr. Cheatham: It relates to the question of how

(Testimony of Glenn Muffly.)

claims can be supported by the original disclosure. Now, that was as far as we went to find the original disclosure.

Mr. Cuningham: We ordinarily call it late claiming.

The Court: As I understand it, the original claim here [1390] did not refer to a finned coil, that the description did not refer to a finned coil and the drawings manifest some doubt as to whether it's a finned coil that is claimed?

Mr. Cuningham: Well, your Honor, none of the claims, even the claim in suit, expressly limit the thing to a finned coil, and it would be improper, if they did. However, as Mr. Parker has testified, and I think others have testified, the description taken with the drawing is certainly adequate to show——

The Court: How about the original description, did it provide for expanders of any kind?

Mr. Cuningham: Expansion surfaces, coils with heat exchange surfaces or expansion, such as by fins or brine tanks. It's inherent in this description.

The Court: Well, your contention, then, would be that if they had a brine tank it would be the same?

Mr. Cuningham: Yes, your Honor. As a matter of fact, I think the testimony, I am sure, of Mr. Bronaugh and I think Mr. Potter, they tried a brine tank and it cost too much money, something like that.

Mr. Byron: Your Honor, the only thing that this specification talks about as originally filed is

(Testimony of Glenn Muffly.)

just this. I will refer, for example, to Column 3 of the patent in suit:

“The freezing compartment or brine tank contains [1391] an expansion coil 22 and a freezing coil 22.”

The Court: Is an expansion coil the same as a finned coil or a brine tank?

Mr. Byron: No. No. An expansion coil is only a coil in which liquid expands into a vapor or for absorbing heat like in Anderson.

The Court: All right.

(Discussion off the record.)

The Court: Recess until 1:30.

(Whereupon, at 12:10 o'clock p.m. a recess was taken until 1:30 o'clock p.m.) [1392]

Afternoon Session

(At 1:30 o'clock p.m. the trial herein was resumed, pursuant to recess, and further proceedings herein were had as follows.)

GLENN MUFFLY

a witness produced by the Defendants herein, thereupon resumed the stand and was examined and testified as follows:

Direct Examination (Continued)

By Mr. Ramsey:

Q. Before lunch, Mr. Muffly, we were referring to Exhibit 118 for Identification. Will you refer to

(Testimony of Glenn Muffly.)

Page 27, elements 1 to 11? A. Page of what?

Q. That is of 118, that is of the Potter patent.
Do you have 118, the file wrapper?

A. I have—yes, the file wrapper.

Q. 2,219,789. Please refer to Page 27 thereof.

(Discussion off the record.)

The Court: Can you go to anything else for a minute?

Q. (By Mr. Ramsey): Let us refer to 114-O to -R. Do you have 114-O in front of you, Mr. Muffly? A. 114-O, yes.

Q. Will you please state what that is? [1393]

A. A comparison between Claim 1 of the accused refrigerators and prior Anderson patent.

Q. Was this not prepared by you or under your direction? A. Yes.

Q. Would you first go through the elements as I read them to you to see whether they are all present in Anderson. One, a cabinet? A. Yes.

Q. Two, a cooling compartment? A. Yes.

Q. Three, a freezing compartment?

A. Yes.

Q. Four, thermal insulation around the compartments thermally insulating said compartments from each other and from the outside atmosphere, said air and said cooling compartments having a substantially stable temperature and a relative humidity of 100 per cent at 32 degrees F.? A. Yes.

Q. Air in the freezing compartment having a temperature well below 32 degrees F.?

(Testimony of Glenn Muffly.)

A. Yes.

Q. A cooling refrigerant expander having heat-conducting surfaces within said cooling compartment constructed and arranged to maintain its heat-conducting surfaces at a temperature above 32 degrees F. while withdrawing heat from said compartment to maintain said air in said cooling [1394] compartment at substantially stable temperatures?

A. We have "Yes" under Anderson.

Q. These are all related to Anderson?

A. Yes.

Q. A freezing refrigerant expander having heat-conducting surfaces within said freezing compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature well below 32 degrees F. while withdrawing heat from said compartment? A. Yes.

Q. Volatile refrigerant in said expanders?

A. Yes.

Q. A single liquefying unit associated with said expanders and constructed and arranged to contain refrigerant expanded by heat extracted from both said compartments? A. Yes.

Q. A volatile refrigerant circulating through said expanders being the sole heat-extracting medium? A. Yes.

Q. A thermostat responsive to the temperature in one of said compartments controlling the operation of said liquefying unit? A. Yes.

Q. You have answer "Yes" to each of the elements of Claim 1? [1395]

(Testimony of Glenn Muffly.)

A. Yes, each one of Anderson.

Q. Now referring to the Admiral and Amana refrigerators, which are the accused devices, which ones are missing there? A. No. 5.

Q. What is No. 5?

A. Air in said cooling compartment having a substantially stable temperature of about 40 degrees F., and having a humidity whose relative value is at least 100 per cent at 32 degrees F. I have "No" under each, Admiral and Amana.

Q. Any others?

A. No. 7, a cooling refrigerant expander, having heat-conducting surfaces within said cooling compartment constructed and arranged to maintain its heat-conducting surfaces at a temperature above 32 degrees F. while withdrawing heat from said compartment to maintain said air in said cooling compartment at a substantially stable temperature. That I have put "No" under both Admiral and Amana, and the next one, No. 8, a freezing refrigerant expander having heat-conducting surfaces within said freezing compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature well below 32 degrees F. while withdrawing heat from said compartment," again I have "No" under each, Admiral and Amana.

"And No. 10, a single liquefying unit associated with said expanders constructed and arranged to contain [1396] refrigerant expanded by heat extracted by said expanders from both said compart-

(Testimony of Glenn Muffly.)

ments, the volatile refrigerant circulating through said compartments being the sole heat-extracting medium." "No" under both Admiral and Amana.

Q. Will you next refer to 114-P?

A. I have it.

Q. Is that a similar treatment of Claim 2, the patent in suit? A. It is.

Q. Do you find all of the elements—do you or do you not find all of the elements in Claim 2 present in Anderson?

A. They are all present in Anderson.

Q. Now, referring to Admiral and Amana structures, which ones do you find absent, if you find any absent?

A. These are missing, Items 5, 6, 8 and 9.

Q. Those might be meaningless if the jury did not have that list before them.

The Court: Are those the same that you have read just a minute ago?

The Witness: I think I had probably better read them.

Mr. Byron: Answer the question.

The Witness: They are now quite identical here.

Q. (By Mr. Ramsey): Except for air, are they identical?

A. They are substantially the same features, wording of the claim 1. There is a slight difference in wording here. [1397]

Q. Will you next refer to 114-Q? Is this Claim 3 of the patent in suit? A. Claim 3; yes.

Q. How does Claim 3 differ from Claim 1?

(Testimony of Glenn Muffly.)

A. In having the further specification of the thermal insulation around the cooling compartment and so on at the end of the claim.

Q. Is that No. 12? A. Item No. 12; yes.

Q. Would you please read that?

A. A thermostat responsive to the temperature in said cooling compartment and controlling the on-off cycles in said liquefying unit in response to variation of said temperature and the thermal insulation around said cooling compartment offering less resistance to flow of heat thereto from the outside atmosphere than does the thermal insulation of the freezing compartment to insure starting of said liquefying unit by heat flow into said cooling compartment during an off cycle of said liquefying unit before the temperature of said freezing compartment approaches a non-freezing value.

Q. Do you find that present in Anderson?

A. Yes.

Q. Do you find it present in the accused devices, Admiral and Amana? [1398]

A. No, not in either of them.

Q. Would you next refer to Exhibit 114-R?

A. I have it.

Q. How does it differ from Claim 2 of the patent in suit?

A. In the same manner that Claim 3 differs from Claim 1, this addition that I have just read.

Q. Do you find Element 10, as you have identified it, present in the Anderson patent?

A. Yes.

(Testimony of Glenn Muffly.)

Q. Do you find it present in the accused devices, Admiral and Amana?

A. No, not in either.

The Court: What were you referring to, then? What is that exhibit?

The Witness: This is 114-R.

The Court: To what does it refer?

The Witness: It refers to Claim 4 as applied to the Anderson and the accused refrigerators, entitled, "Comparison Between Claim 4 Accused Refrigerators and Prior Anderson Patent."

The Court: As I understand it, Claim 2 is the broadest claim; is that right?

Mr. Anderson: Yes.

The Witness: Yes.

Mr. Ramsey: That is agreed by both sides, if the Court [1399] please.

The Court: Is Claim 2 similar to Claim 4?

The Witness: Yes.

The Court: Claim 1 is similar to Claim 3?

The Witness: Yes, but there is another difference in which 3 and 4 include this final longer wording about thermal insulation.

The Court: 1 and 2 are similar, and 3 and 4 are similar?

The Witness: Yes, with respect to this insulation part.

The Court: The difference between 1 and 2 and 3 and 4 is that it has another limiting factor, the thermal insulation; is that right?

A. Yes.

(Testimony of Glenn Muffly.)

The Court: So if Claim No. 2 is infringed, all of them are infringed?

Mr. Byron: No.

Mr. Ramsey: No.

Mr. Cunningham: I think your Honor is right. That is our theory of it.

Mr. Ramsey: No; the narrower claims might not be infringed, but I think that more or less it stems—generally, from what we had, it is our contention that none of them are valid. Claim 2 is broader. If Claim 2 is anticipated or invalid, all of them are; stating just the opposite. [1400]

The Court: If Claim 2 is invalid, all of them are invalid, but even if Claim 2 is not infringed the more limited claims may be infringed?

Mr. Byron: May I explain that, your Honor?

Mr. Cunningham: Your Honor, I think we are all mixed up.

Mr. Byron: Let me straighten it up.

The Court: All right, Mr. Byron, you try it, and then if Mr. Cunningham is not satisfied with your explanation, we are going to give him an opportunity.

Mr. Byron: Fine. There are four claims in suit. Claim 2 we agreed is the broadest claim. That means the other three claims are more limited in scope. Now, if Claim 2 were infringed, all of the claims would be infringed, and if, let us say, that Claims 1, 3 and 4, which are narrower in scope, have more limitations, may not be infringed at all, even though Claim 2 were infringed, now it is more

(Testimony of Glenn Muffly.)

difficult to infringe a narrower claim with more elements in it, more qualifications, and it is more difficult to invalidate a narrower claim, and it is easier to invalidate a broad claim such as 2. I think that explains it, does it not?

Mr. Cuningham: Yes; I think you misspoke, Mr. Byron.

Mr. Byron: Maybe I did.

Mr. Cuningham: If the narrowest claims are infringed, [1401] then obviously the broadest ones are.

The Court: Yes.

Mr. Cuningham: It is not the reverse. I think that was his only slip.

Mr. Byron: Yes.

Mr. Cuningham: Otherwise, I agree wholeheartedly with what he said.

The Court: Do you also agree that 1 and 2 are almost identical, and 3 and 4 are almost identical?

Mr. Cuningham: Yes, sir; and, further, to compare the two broader with the two narrower ones, 1 is like 3, and 2 is like 4. [1402]

The Court: 2 and 4 are broader.

Mr. Cuningham: 3 and 4 are the narrowest ones and 2 are the broadest. But they have their correlatives. I think you will see what I mean in the reference to air, your Honor, in Claim 2 and in Claim 4. That——

The Court: Well, I thought that 3 and 4 were like 1 and 2 except for the thermal insulation in 3 and 4.

(Testimony of Glenn Muffly.)

Mr. Cuninghame: That's correct, sir.

Mr. Byron: Correct.

Mr. Ramsey: Maybe I can take a whirl at it. 3 and 4 have the additional limitation of the relative insulation. Claim 1 and Claim 3 include positively air as an element of the claim.

The Court: All right. Well, that is the reason I asked Mr. Muffly a question because I didn't understand it. Is it more clear to the members of the jury now?

(Whereupon, the jurors nod their assent.)

The Court: I want to commend you on your patience in this case. I know how difficult this is. From time to time we are getting into technical discussions, but this case means much to all the parties concerned and we are on the last week and you have done a good job so far. So keep up the good work and listen carefully to all the testimony.

Q. (By Mr. Ramsey): Now, do you have 118 for identification, Mr. Muffly? [1403]

A. Yes. It's here.

Q. The file wrapper? I wonder if you would refer to page 27 thereof? Are you familiar with the claims in that patent and to which these remarks refer?

A. Yes, I have them.

Q. Do they cover substantially the same or similar organization to those referred to in the claims in the patent in suit?

A. This—we are speaking of the Potter 21,9—

(Testimony of Glenn Muffly.)

Q. That is correct; and the claim in the file wrapper that his remarks relate to.

Mr. Cuningham: I'm sorry. I'm confused. Are you talking about claims in the file wrapper and, if so, what claims?

Mr. Ramsey: The ones that precede page 27 in the file wrapper.

Mr. Cuningham: These are not the claims in the issued patent?

Mr. Ramsey: That is right.

Mr. Cuningham: And can you give me the numbers of them?

Mr. Ramsey: Do you have the file wrapper?

Mr. Cuningham: I have a digest of it. I should be able to get them from the digest.

Q. (By Mr. Ramsey): What action is it, Mr. Muffly, and what date?

A. The action on page 27 is the second page of an action— [1404] no—an amendment.

Q. The date of the amendment?

A. October 21st, 1937.

Mr. Cuningham: October 21st, 1937.

The Court: Is this a construction by Potter in connection with some action taken by the examiner?

Mr. Ramsey: That is correct.

Mr. Cuningham: This is in that much later patent——

The Court: Yes. That's right.

Mr. Cuningham: Well, I think I found October——

(Testimony of Glenn Muffly.)

The Court: As I understand it, this is being read for an admission?

Mr. Ramsey: That's correct.

The Court: —by Potter in connection with this later patent?

Mr. Ramsey: And particularly as to location of this cooling evaporator within.

The Court: All right.

Mr. Ramsey: Within the cooling compartment.

The Court: Go ahead.

Q. (By Mr. Ramsey): Would you please read Lines 1 to 11 in that amendment?

Mr. Cunningham: In the remarks?

The Witness: On page 27?

Mr. Ramsey: That's correct. [1405]

The Witness: Starting at the top of the page?

Mr. Ramsey: Top of the page, yes.

The Witness: "The applicant is not broadly claiming that the use of fins on the boiler but is claiming a novel combination in which the finned boiler forms a part. Regardless of the function which may be performed by the Gibson refrigerator the patent does not disclose the structure used by the applicant. Applicant's structure is materially simpler than that of Gibson who uses the entire inside shell of the refrigerant compartment for transmitting heat to the refrigerant pipes which encircle it. Obviously Gibson does not have a secondary boiler in the food compartment and obviously Baird has nothing corresponding to the sharp freezing compartment."

(Testimony of Glenn Muffly.)

Q. (By Mr. Ramsey): Now, would you read Lines 15 to 17, the same page?

A. "Like Claim 2, Claim 7 recites the fact that the portion of the refrigerant circuit which lies within the food chamber is formed with heat radiating fins."

Q. Now, would you refer to page 41 of the file wrapper, and will you identify it with an amendment date?

Mr. Cuningham: By date, please. I don't have the [1406] page.

Mr. Ramsey: I asked for the date.

The Witness: An amendment received at the patent office April 25th.

Mr. Cuningham: What year?

The Witness: Just a minute, '39—and making various amendments, specifications, and claims, and we come over to the remarks beginning on page 40. You asked me about page 41?

Mr. Ramsey: Commencing at Line 21.

A. Which is a continuation of the remarks.

Q. And will you read that?

A. That starts: "A combination of these"?

Q. That is correct.

A. "A combination of these references does not produce applicants' invention. Gibson discloses a refrigerator in which practically the entire wall area is a refrigerating surface with a large area uniformly exposed. There is practically no direct circulation of air and this condition when food is left in the food compartment for a considerable

(Testimony of Glenn Muffly.)

period of time while the temperature of the food may be maintained within refrigerating limits has the effect of stagnant air. Actual physical tests in applicants' laboratories with a food chamber [1407] of this type filled with food and sealed for a week and with a food chamber provided with a finned coil for cooling filled with identical food and sealed for a week showed that with the finned coil there is obtained a definite circulation of air and that this definite circulation of air on actual tests produces a better food preservation effect."

Q. Going ahead to the Line 21 on Page 42.

A. Yes.

"It was found that food sealed up for a week in a chamber where definite circulation of air was obtained and is obtained through the use of a finned coil showed marked superiority over food that was sealed up for the same length of time in the more stagnant cabinet. Some of the food in the stagnant air cabinet showed a large cover of mold while there was no mold shown in the cabinet built according to applicants' system. Air conditioning means control of temperature, control of humidity, and control of circulation. All these three things are essential in order that the system may come under the term 'air conditioning.' These three elements are necessary [1408] in the right proportion to obtain the maximum values in food preservation when food is preserved at temperatures above 32 degrees F. Food kept in covered containers, in other words, food that is protected against circulating

(Testimony of Glenn Muffly.)

air, grows bacteria at an increased rate because of non-circulating air.”

Claim 13——

The Court: How long are you going to read?

Mr. Byron: Five more lines.

The Witness: Six more lines.

The Court: Mr. Ramsey, you shouldn't have had this witness read this. This exhibit is not in evidence. You can't be asking this man to read it. You have to establish that he made an admission before the witness can read. If I permitted this sort of thing to be done I wouldn't have to admit any exhibits. The witness would just read it.

Mr. Ramsey: I was only trying to establish the admission.

The Court: Well, you don't establish the admission by the very document that you are asking to be introduced for the purpose of showing the admission.

Mr. Ramsey: It would be objectionable if I asked him to summarize it. I don't want to——

The Court: I think that's about the only way you are going to be able to do it. But now that he is down to the [1409] last five lines, let him continue. But don't do that any more.

The Witness: Should I read the rest?

The Court: Go ahead.

The Witness: “Claim 13 therefore clearly distinguishes from the patent to Gibson or Gibson taken in connection with Gase as the evaporator for the food chamber in Gibson is not so con-

(Testimony of Glenn Muffly.)

structed that it may occupy a certain predetermined definite confined space within the food compartment causing proper circulation of air which is one of the three elements necessary to provide air conditioning.”

Q. (By Mr. Ramsey): Now, Mr. Muffly, is this patent issued to Thomas Irving Potter?

A. Yes.

Q. And could you explain what it is he is representing to the patent office with regard to the Gibson patent?

A. That the Gibson patent——

Mr. Cuningham: If your Honor please, I think the words speak for themselves.

The Court: I don't understand what they mean.

Mr. Cuningham: Well——

The Court: I don't think the jury does, either, unless they understand a lot more than I do, and I don't believe they do, either. So that's the purpose of an expert on this [1410] particular thing. I think this is what he should have done in the first place. I am going to permit the witness to answer.

Q. (By Mr. Ramsey): Would it be helpful to you to refer to 114-G? A. Which is——

Mr. Ramsey: It's being brought up to you now. You have previously identified it.

A. The question was?

Q. (By Mr. Ramsey): What is the applicant at this point representing to the patent office to secure a patent?

(Testimony of Glenn Muffly.)

A. Representing that the refrigerator shown in Gibson Reissue 21,941, which is the reissue of the reference referred to there, having a cooling coil around the liner of the food compartment instead of having the finned coil within the compartment as shown in Potter Patent 2,219,789 does not produce the same effect and does not cause the circulation of air which is produced by this finned coil, and that foods will spoil in the Gibson refrigerator whereas they keep in Mr. Potter's refrigerator.

Q. What sort of a cooling element is shown in Gibson?

A. The cooling element of the cooling compartment.

Q. Is that a cold wall type?

A. That's a cold wall type. The secondary evaporator is wrapped around the liner of the cooling compartment as it is [1411] in Admiral, shown at the right of the same sheet.

Q. Is that a cold wall type?

A. That is a cold wall type.

Q. Now, what is he saying about the necessity of having this cooling coil within the compartment?

A. He says it's necessary and that obviously Gibson is not within the compartment.

Q. And now, what about the two accused structures following that same line of argument?

A. That same line of argument would say that obviously the coil is not within either the Admiral or the Amana.

Mr. Byron: Cooling—

(Testimony of Glenn Muffly.)

The Witness: Cooling compartment.

Q. (By Mr. Ramsey): Mr. Muffly, one thing that might be helpful to the jury: Why does he say they are different with regard to air circulation?

Mr. Cuningham: I object; calling for the operation of his mind—Potter's mind.

Q. (By Mr. Ramsey): What does he say, then?

The Court: All right. Go ahead.

Q. (By Mr. Ramsey): Can you tell us, Mr. Muffly?

The Court: What does he say, in simple language, Mr. Muffly?

The Witness: Does Mr. Potter say?

The Court: Yes. [1412]

Mr. Ramsey: Yes.

The Witness: He says that the Gibson patent plan of wrapping it around the outside is no good; that he with his finned coil inside of the compartment accomplishes a result which Gibson cannot accomplish.

Q. And what is that?

Mr. Cuningham: Is he quoting now?

Mr. Byron: No.

The Court: I asked him to state in simple language what Mr. Potter contends, the reasons why he says that his is better.

Mr. Cuningham: I object to it as a misquotation of what Mr. Potter says.

The Court: Well, you will have an opportunity of putting Mr. Parker on the stand on cross-examination.

(Testimony of Glenn Muffly.)

Mr. Cuningham: Mr. Parker wouldn't know a thing of what Mr. Potter said.

The Court: He can read that in the file wrapper also.

Q. (By Mr. Ramsey): Considering that "within" and you say it will not work. Now, why does he say it will not work with regard to air circulation or air conditioning, as he calls it?

A. He says that the air in the Gibson refrigerator which is like the Admiral and the Amana will be stagnant; that it will not have the proper circulation; that it will not properly preserve the foods; that they will collect mold [1413] because of having this coil on the outside instead of the inside.

The Court: I think we are going far afield.

Mr. Cuningham: Thank you, your Honor.

The Court: I think that I understood the purpose of this exhibit was to show that the cooling compartment consisted of that portion of the box in which Mr. Muffly previously put his hand. That is inside where you put the food. Is that right?

Mr. Byron: There is another point, your Honor. To establish infringement we have discussed that there must be three identities and one of those identities is substantial identity of result. Now, in taking up these arguments made by Mr. Potter against the Gibson patent, as a reference he says Gibson cannot get these results because the coils are wrapped around the cooling compartment and, therefore, there will not be the circulation of air in the cooling compartment, whereas Mr. Potter,

(Testimony of Glenn Muffly.)

where he has the finned coil within the cooling compartment, he does get a circulation of air and where you do get a circulation of air, he says there will be no mold. If you don't have a circulation of air there will be no mold.

The Court: Well, I don't think that's admissible, Mr. Byron, for this reason: He was never qualified as an expert. Mr. Potter is not an expert and nobody claims he is, [1414] and, therefore, you can't use what he says about an engineering subject as evidence.

The question is, is it true or not, that's the ultimate question? But you can, it is admissible, as I previously pointed out, to show what he envisages a cooling compartment to contain. He didn't define it in his original patent, and, therefore, you can show that at a later time when he uses these words he must have meant the inside and not the outside.

It's admissible for that purpose, but I don't think it's admissible for any other purpose because——

Mr. Byron: That's substantially the same thing. I had it in different words, your Honor, that's all.

Mr. Ramsey: I do offer it and with this additional thing, which might be another facet of the same problem, it is interpretation of the words "within the compartment." Used in the same environment.

The Court: Well, it's admissible for that purpose but it's not admissible whether the air stagnates or doesn't stagnate, because Potter is not an expert.

(Testimony of Glenn Muffly.)

Mr. Ramsey: Is it admitted?

The Court: It's admitted.

(File wrapper, Potter Patent 2,219,789, previously marked for identification, was received in evidence as Defendants' [1415] Exhibit 118.)

Mr. Byron: Is that Exhibit 118?

Mr. Ramsey: Yes.

I wonder if you would have the file wrapper of the reissue patent, which is Exhibit 102, before you, Mr. Muffly?

A. I have 102, the file wrapper of the Reissue Patent 23—— [1416]

Q. Would you refer to Page 62 thereof which is the final amendment dated November 12, 1948. This appears in about the middle of the argument.

The Witness: Paragraph starting, "As further——"

Q. It is the first paragraph, and may I read this to you?

"Furthermore, the elements——"

This is Potter's final argument in the reissue patent in suit to urge these reissue claims.

He says:

"Furthermore, the elements expressed in the reissue claims do not cover all ways by which the results of the Potter, et al., invention could be accomplished. Thus, for example, a two-temperature refrigerator can be built which does not utilize volatile refrigerant expanders, or does not use a single compressor, or does not utilize in its cooling

(Testimony of Glenn Muffly.)

compartment an expander whose surface temperature is always above 32 degrees F. Such refrigerators would not infringe the present claims. We point this out to show further that the elements in the claims are described with definiteness and in terms of their structure."

Now, with that in mind, Mr. Muffly, do you find in the accused devices an expander in the cooling compartment? [1417] A. No.

Q. Do you find an expander whose surface temperature is always above 32 degrees F.?

A. No.

Q. At what temperature do the cooling compartment walls, that is, the inner surfaces of the liner, stand during operation temperaturewise?

A. They will pass the freezing point, ice, somewhat. At one setting of the control they can cyclically defrost, and the coil back outside of it is still colder and vary according to the thermostat setting, may go down to 25 degrees or colder.

Q. Were you in the courtroom when Mr. Parker was on the stand and said that a part, a part that he construed the cooling expander or evaporator in the accused devices were the primary coil of the heat transfer plates? A. I heard that.

Q. What temperature do they stand at during operation?

A. They will go far below zero at times. Their evaporative compressors——

Q. During operation?

(Testimony of Glenn Muffly.)

A. During operation they will go down to 10 below zero, maybe lower.

Q. Then he attempted to connect up those sub-zero coils [1418] as a part of a cooling evaporator, cooling compartment evaporator or cooling coil, with the secondary coils of the accused devices. At what temperature do the cooling coils of the secondary stand during operation?

A. They are the coils surrounding the cooling compartment, and they may be from 20 to 25 degrees.

Q. Thank you. Now, will you refer to Page 65 which is a part of this same amendment, and about the middle of the page. It is a sentence, and I will read it to you:

“The description of the expander in the cooling compartment being constructed and arranged to operate at a surface temperature above 32 degrees F. is definite and when read in the light of the patent specification a person skilled in the art would have no difficulty in arriving at the proper proportions.”

With that in mind, do you find in the specification any description whatsoever of the coil 25 except by the number and by calling it 25?

A. No, there is no definition or description.

Q. Do you find in the specification any teaching of proportions? A. No.

Q. Do you find in the specification any mention of temperature or humidity controlled by reason of

(Testimony of Glenn Muffly.)

the structure of [1419] said coil 25 in the patent in suit?

A. In the patent in suit, their wording concerning the temperature and humidity of the air, but nothing——

Q. Do you find——

Mr. Cunningham: Objection, your Honor. Let him finish his answer.

Mr. Ramsey: Are you finished?

The Witness: No—well, that is all right; go ahead.

Mr. Ramsey: I did not intend to interrupt you. I just asked you if your answer was finished.

A. I found—mentioned the air, but I found nothing that refers to the structure necessary or used to accomplish such a result.

Q. You are now referring to the structure of the coil No. 25 of the patent in suit? A. Yes.

Q. You have considered and discussed in some length the coil in the Larkin patent. Do you find there a description teaching proportion and construction? A. Yes.

Q. I wonder if you would step down past this refrigerator which is the accused refrigerator 10-A. Would you point to the control knob used by the householder which is for the moist cold?

A. This knob at the right has a dial which rotates, which [1420] has an arrow pointing “Colder” to turn clockwise; “Warmer” as we turn counter-clockwise; “N” for normal in the middle, and if we turn it halfway around it says “Off.”

(Testimony of Glenn Muffly.)

Q. Now, "Normal" appears if we consider like the face of a clock at 12:00 o'clock?

A. The "N" standing for normal is at 12:00 o'clock. That is, when it is set at normal the "N" is at the top of the dial.

Q. I ask you to consider, and I do not know the exhibit number, but it is the manual of the Admiral Corporation, the blue one.

Mr. Byron: Plaintiff's Exhibit 4-CC-2.

(Discussion off the record.)

The Court: Is there any reason why he should not use one of those (indicating copies of manual)?

Mr. Ramsey: Would you agree that is one of them, Mr. Cunningham?

Mr. Cunningham: That is one of those.

Mr. Ramsey: You have no objection?

Mr. Cunningham: No; go ahead.

The Court: Go ahead.

Q. (By Mr. Ramsey): Do you understand the design and operation of the Admiral refrigerator?

A. Yes.

Q. On which you have just pointed out to the jury the location [1421] of the control knobs?

A. Yes.

Q. I ask you to turn in that manual to Page 52 and the paragraph marked F. Do you find that?

A. Yes.

Q. May I read to you:

"The Moist Cold compartment in Model 1090 and 1390 Dual-Temp refrigerators will not ice up when

(Testimony of Glenn Muffly.)

used at sea level if the temperature controls are correctly calibrated except possibly when both controls are turned practically to the maximum cold positions.

“The Moist Cold compartment in Model 1191 Dual-Temp refrigerators is designed so that ice forms on the walls when the compressor is running and thaws when the compressor is not running with the Moist Cold Temperature Control set at ‘Normal.’ In other words, it is designed for a ‘Freeze and Thaw’ cycle. Consequently, icing in this model is normal unless it does not thaw during the off cycle. However, too much ice (ice does not thaw and continues to build up) is an abnormal condition and should be checked as outlined in the following paragraphs. [1422]

“Due to minor differences in production parts in Models 1090 and 1390, you may receive an occasional complaint of ice formation with the Moist Cold control at ‘Normal,’ and a complaint of ice build-up in Model 1191. In such cases, you can check the control calibration and replace the control if necessary, but most of these complaints can be handled by instructing the consumer to turn the Moist Cold temperature control towards the warmer side enough to prevent icing. Explain to the consumer that icing condition is proof that the refrigeration mechanism is in excellent order since it is capable of maintaining lower wall temperatures than necessary.”

(Testimony of Glenn Muffly.)

Would you explain to the jury what temperatures are attained in the surface of the liner when that is moved from "Normal" clockwise towards the colder side?

A. That would bring the liner temperature down to this point where the icing would last over until the next cycle; not defrosting each cycle.

Q. What would happen if that were turned to, say, about 3:00 o'clock?

A. That would be an intermediate point, probably more icing; not necessarily icing over to last through the cycle. [1423]

Q. When ice forms on the liner, does this, or does the accused device or devices—does that indicate that a temperature below 32 degrees F. is attained? A. Yes, definitely.

Q. Would that be the condition that exists in which the applicants state is outside of their patent and would not be an infringement? A. Yes.

Mr. Ramsey: You may cross-examine.

Cross-Examination

By Mr. Cuninghame:

Q. What, in your opinion and with your background of over a hundred thousand patents, is the closest prior art patent to the patent in this case?

A. There are so many that that is very difficult to select one. Anderson——

Q. You had no difficulty with——

Mr. Ramsey: Wait; let him finish his answer.

(Testimony of Glenn Muffly.)

Mr. Cuningham: I would like an answer to the question.

The Witness: All right; we have Anderson.

Q. (By Mr. Cuningham): Is that the closest prior art patent?

A. We are talking about those that are here.

Q. No, of all you know about. The number of that patent is 1,439,051. [1424]

A. That is the one we selected to use here.

Q. Thank you. Did you, Mr. Muffly, write an article in a publication entitled "Ice and Refrigeration" of July, 1941, and I show you the only photostatic copy of that that I have.

The Court: Has it been identified?

Mr. Cuningham: No, it is a publication—I plead guilty; I found it in my papers.

Mr. Byron: We object to that now, your Honor.

Mr. Cuningham: I did not intend to offer it in evidence. I would like to get his agreement to a statement in it, however, that he wrote, acknowledgement that he wrote it. I would like to have it marked, and if I had realized that I had it——

The Court: I am going to let you do it this time. Mark it.

Mr. Cunningham, our rules provide no surprises, and you are supposed to have this marked before counsel for the other side. I will permit this one if you say you have been surprised by anything Mr. Muffly has said.

(Photostatic copy of document referred to marked Plaintiff's Exhibit 23 for Identification.)

(Testimony of Glenn Muffly.)

The Court: Did you write that article, Mr. Muffly?

The Witness: It has my name at the top. I am just [1425] looking to see which article it is.

Mr. Cuningham: It has your picture on it.

A. Yes, yes, obviously my article.

Mr. Cuningham: I offer it in evidence, your Honor.

The Court: You said you did not want to offer it; you just wanted to find out whether he agreed or did not.

Mr. Cuningham: I offered it because I thought—I really—I just wanted to get one statement in. I will withdraw the offer, your Honor. I think it does encumber the record.

The Court: Give it back to him and ask him if he agrees with the statement.

Q. On Page 42 under the subdivision of this article which bears the title, “1930-1935”——

The Witness: The date of the publication, please?

Q. I beg your pardon?

A. The date of this publication, what is this?

Mr. Cuningham: It is “Ice and Refrigeration,” July, 1941, Mr. Muffly.

A. July, 1941.

Q. Perhaps I should state this about it. It is entitled, and I quote, “Twenty-Five Years of Household Electric Refrigerator Development,” by Glenn Muffly, Consulting Engineer, Springfield, Ohio. It starts on Page 38 of that magazine and

(Testimony of Glenn Muffly.)

apparently runs through to Page 44, and on [1426] Page 42 I read the following, and that is under the subdivision 1930-1935. This is a five-year subdivision period on a 25-year coverage of the history of the art. A. Yes.

Q. "Some manufactureres went so far as to supply a separately insulated space in which frozen foods might be kept in larger packages than would go into the ice tray space. This called for two evaporators, one at a low temperature with the frozen food compartment, and one at a non-frosting temperature or operated on a defrosted cycle for the main food space which was thereby held at a higher humidity. This is a trend of which we will hear a lot more."

Do you recall writing those words?

A. I don't recall writing them, but it sounds like something I might have said.

Q. Well, you tell us, subject to any correction that I read, the right words in your recollection.

A. I advocated that sort of design ten years earlier than this.

Mr. Cuningham: Now, if your Honor please, just one more quotation on the same page, and this is under the heading "1941 and the Future." [1427]

Mr. Cuningham: Now, if your Honor please, just one more quotation on the same page, and this is under the heading: "1941 And The Future," and I quote:

"Probably the biggest trend this year is in the direction of two-zone refrigerators which provide a

(Testimony of Glenn Muffly.)

place for storing frozen foods. All manufacturers talk as if they had this and some really do have it. The trend is in the direction of what amounts to a small very low temperature refrigerator located inside of a larger refrigerator in which the cooling surface is held above freezing so as to prevent the accumulation of frost and the dehydration of cabinet air. In a few years a refrigerator in which frost is visible when you open its outer door will look like an automobile with a starting crank hanging on the front."

Your witness. That concludes my cross-examination.

The Court: The jury is instructed to disregard the remarks because it wasn't an impeaching statement.

Mr. Ramsey: Defendant rests.

Mr. Cunningham: If your Honor please, we had expected to have two other witnesses, as I previously announced. I don't know that we are prepared to go ahead with Mr. Parker at this stage. We counted on this evening for it. [1428]

The Court: How many witnesses do you propose to call in rebuttal now?

Mr. Cunningham: Just Mr. Parker, your Honor.

The Court: Just Mr. Parker.

Mr. Cunningham: By the way, he got in at 4:00 o'clock this morning.

The Court: We are not going to rush Mr. Parker. We are going to give you all the opportunities to prepare your case.

(Testimony of Glenn Muffly.)

How long will Mr. Parker take?

Mr. Cheatham: I believe somewhere between a half hour and three-quarters of an hour.

The Court: All right.

Now, I will tell you what I am going to do. I am going to recess this case until tomorrow morning to give you an opportunity of putting Mr. Parker on, with the understanding, however, that argument will follow Mr. Parker's testimony.

Mr. Cuningham: All right.

The Court: Now, according to our original plans, neither side can take more than two hours in argument. In other words, I am not urging anyone to speak for two hours, but that is the maximum time than can be taken.

Mr. Cuningham, if you are going to do the arguing on behalf of the plaintiff you can split your time up any [1429] way you want, except that you may not take or reserve more than half your time for rebuttal.

In other words, if you speak less than an hour on your opening you will only get an hour on your closing, and both arguments need not be made by you, but Mr. Cheatham can make any argument at any time he wants. You can give him any time you want.

As far as the defendants are concerned, you can split up amongst the four of you any time you want, as long as it doesn't take more than two hours.

Ladies and gentlemen of the jury, I think it's

(Testimony of Glenn Muffly.)

best that we give Mr. Parker an opportunity to go over the evidence. I think we will take a lot less time. I am not going to instruct you as to the law until Thursday morning at about 9:30. I don't want to instruct you tomorrow at 4:00 o'clock or 5:00 o'clock in the afternoon, which might take us up to about 6:00 o'clock before you go out. This way you are going to have plenty of opportunity to discuss the case and come to a conclusion, I hope, by a reasonable hour.

Now, on that day I would like to have you here about 9:30 and we will finish the instructions by about 11:00 o'clock.

(Discussion held off the record.)

(Witness excused.) [1430]

The Court: All right. I need not tell you this, but please keep an open mind. I assume that you are all going to do that and you are excused until 10:00 o'clock tomorrow morning.

(Whereupon the jury was excused.)

(Whereupon proceedings were had but not reported.)

(Whereupon, at 2:45 o'clock p.m., an adjournment was taken until 10:00 o'clock a.m., Wednesday, November 30, 1955.) [1431]

Wednesday, November 30, 1955, 10:00 A.M.

proceedings herein were resumed pursuant to adjournment, as follows:

The Court: Mr. Parker, I understand you are going to testify.

NORMAN S. PARKER

was thereupon recalled in rebuttal as a witness in behalf of plaintiff, and, having been previously sworn, testified as follows:

Direct Examination

By Mr. Cheatham:

Q. Mr. Parker, have you familiarized yourself with Defendants' Exhibits 114-A and 114-B, which are these colored charts entitled "Claim 2 Does Not Read on Admiral" and "Claim 4 Does Not Read on Admiral"? A. Yes.

Mr. Cheatham: I would like to pass these to you.

(Whereupon the Crier hands two charts to the witness.)

Q. (By Mr. Cheatham): I would like to have you comment with respect to Item 5 on 114-A and give us your opinion as to the correctness of that conclusion as shown on that chart.

A. In this chart I might say for clarification of what I am going to say that at the right-hand of the chart or exhibit [1432] there is a reproduction

(Testimony of Norman S. Parker.)

of the drawings of the patent in suit. At the left side is a somewhat diagrammatic drawing showing—labeled “Admiral.” In between the Claim 2 is parsed or broken into components and along the margin of this quotation from the claim is a series of comments.

For the first four items no comment is indicated. These comments are between the ones—the ones I am alluding to are between the diagram of the Admiral device and the quotations from the claim. The Item 5 about which you asked reads: “A cooling refrigerant expander having heat conducting surfaces within said cooling compartment and constructed and arranged to maintain its heat conducting surfaces at a temperature above 32 degrees F. while withdrawing heat from said compartment whereby air in said cooling compartment is cooled thereby to a temperature above 32 degrees F. and is maintained at a humidity whose relative value is at least 100 per cent at 32 degrees F.”

That part of the claim which I have quoted is in this parsing in the middle of the exhibit, broken up into four paragraphs or four separated spaced bits. The top one——

The Court: Mr. Parker, I don't want to interrupt you, but I think it would be much more effective if you would have that exhibit brought out to the jury. They have a blown-up copy. [1433]

Mr. Cheatham: Thank you, your Honor.

(Testimony of Norman S. Parker.)

(Whereupon the blown-up chart was placed on the easel in view of the jury.)

Mr. Cheatham: 114-A.

The Witness: The part 5 as I quoted is about in the middle of the chart. At the first subdivision which was talked about, I believe, by Mr. Muffly, "A cooling refrigerant expander," no comment.

Then in the second subdivision, "Heat conducting surfaces within said cooling compartment" and opposite that is the word "No." Then there is a bracket of two parts, the first of which, "constructed and arranged to maintain its heat conducting surfaces at a temperature above 32 degrees Fahrenheit while withdrawing heat from said compartment." Opposite that is a statement "No. Is a function of thermostat." Then below is a statement which is part of the bracket and opposite this there is no comment, "whereby air in said cooling compartment is cooled thereby to a temperature above 32 degrees Fahrenheit and is maintained at a humidity whose relative value is at least 100 per cent at 32 degrees F."

Now, where Mr. Muffly and I completely differ in our interpretation of the language of the claim is that Mr. Muffly feels that this language has to—that this language of the claim, if I understand Mr. Muffly correctly, [1434] can only be satisfied if the duct or the part of the expander in which the refrigerant evaporates is also in the storage space. I

(Testimony of Norman S. Parker.)

do not so read the claim and to me the language does not require it. What the language says is that "a cooling refrigerant expander has heat conducting surfaces within the cooling compartment and constructed and arranged to maintain its heat conducting surfaces at a temperature above 32 degrees F. while withdrawing heat from said compartment."

To me, that notation of the claim is completely satisfied by the Admiral structure because the liner in the compartment has a heat conducting surface and that heat conducting surface is subjected to the heat of the material to be refrigerated. If any food is put in the cooling compartment it is surrounded by this heat conducting surface, and the heat conducting surface which is in the cooling compartment accepts the heat or takes the heat from the material in the storage part of the compartment and that heat is removed under circumstances where the conducting surface, namely, the liner of the compartment—the liner in the compartment itself is not frosting or is not supposed to frost.

And it's perfectly clear that the intention of the Admiral device, or the operation of the Admiral device, its expected operation is refrigeration without normal deposits [1435] of frost or abstraction of moisture from the food in the form of frost on the liner. That's clear from the statements in their manuals.

(Testimony of Norman S. Parker.)

In other words, to me the Item 5 reads precisely on the Admiral structure and is satisfied by it.

Q. Do you have any comment with respect to Item 6 of that Chart 114-A?

A. Of course, Mr. Muffly and I do not agree in the interpretation of the statements, "A freezing refrigerant expander having heat conducting surfaces within said freezing compartment." I say that the Admiral structure and, for example, the Admiral freezing compartment as exemplified in Exhibit 117-A does have, as this exhibit says, heat conducting surfaces within the freezing compartment, and these are constructed and the heat conducting surfaces and the expander in the environment in which they are used are constructed and arranged to maintain a heat conducting surface at a temperature well below 32 degrees Fahrenheit while withdrawing heat from said compartment. That is the purpose of this device and that is the way it works.

To me, limitation No. 6 reads precisely on the Admiral refrigerator.

Q. Do you have any comment with respect to Item 8?

A. Well, in Item 8, again, I think the difference between Mr. Muffly and myself is perfectly clear. Mr. Muffly, I don't [1436] think, would deny it.

Mr. Byron: Now, wait a minute. I don't believe that is quite proper.

(Testimony of Norman S. Parker.)

The Court: Well, it's just semantics, that's all. Just change your language.

The Witness: Yes. I would say that I think that we would all agree—put it that way—that the motor compressor unit in the bottom of the Admiral refrigerator working with the condenser which condenses the hot gas delivered from the compressor is the means and the only means for actually taking heat from the two compartments out of the refrigerator and releasing it through the room and in air or whatnot.

In other words, the only way shown in Admiral whereby the heat from the food stored in the two cabinets can be taken out of this refrigerator and can be gotten rid of—the only way to do it is to use the circulating refrigerant which circulates through the single compressor condenser unit at the bottom of the Admiral cabinet. As a matter of fact, it is stated very much along the lines described in one of the Admiral manuals.

Q. All right.

A. So, to me, the limitation 8 reads perfectly precisely on Admiral and you will have to take, of course, the limitation together, “a single liquefying unit associated with said [1437] expander.” Now, what does that single liquefying unit do? It is constructed and arranged to condense refrigerant expanded by heat extracted from both said compartments, and that is precisely what the condenser compressor unit in the bottom of Admiral cabinet does.

(Testimony of Norman S. Parker.)

Of course, Admiral has added something else. They have added an additional secondary system. The obvious function of that system, if I understand it correctly, is to localize the heat from the moist cold compartment so that the primary transfer plate can pick it up and take it down to the compressor condenser unit and get rid of it. And that is not done by the secondary system but by the primary system. All that the secondary system does is to localize, you might say, the heat abstracted from the interior of the moist cold compartment and put it in a place where the primary expander does the work to take it away.

Q. Do you have any comments with respect to Item 9 of 114-A? Sorry——

A. Well, the item is “A volatile refrigerant circulating through said expanders being the sole heat extracting medium.” To me, that is a clear description of the Admiral box since the only volatile refrigerant which abstracts the heat from the two expanders to get rid of it is the refrigerant in the primary system. I can see why, if you were going to choose language, you can say there is in addition another [1438] volatile refrigerant that circulates in the secondary system. That I admit. But I do not feel that that is the volatile refrigerant called for by this limitation. This limitation is perfectly clear. And No. 9 has to be read with No. 8.

It's a perfectly proper description of the use of a single refrigerant passing through a single com-

(Testimony of Norman S. Parker.)

pressor condenser unit which is the means for removing heat from both storage compartments. And that is true of the Admiral structure. So, to me, the limitations 8 and 9 read precisely on the Admiral structure.

Q. I refer you to Plaintiff's Exhibit 4-CC-2, and ask you if there is any statement in that exhibit which substantiates what you have just been saying, particularly referring to page 2 of that exhibit.

If your Honor please, those exhibits are attached to the interrogatories and are difficult to open up in the Court's copy. May I pass my copy to the witness?

The Court: That's all right. Go ahead.

(Whereupon the Crier handed Mr. Cheatham's copy to the witness.) [1439]

A. Exhibit 4-CC-2, Page 2, first column, has a statement which I had better use in the language of the exhibit itself, and I will quote:

"The Admiral Dual-Temp, as its name implies, is a two-temperature, two-compartment refrigerator. It has a separate independently controlled freezing locker for storing frozen foods and a separate independent controlled moist cold compartment for storing foods at ideal conditions of temperature and humidity (above freezing). These two compartments are entirely insulated from each other and in effect constitute two refrigerators in a cabinet and operate by a single motor compressor unit."

(Testimony of Norman S. Parker.)

Q. I refer you to Exhibit 4-CC-6, another Admiral refrigerator service manual, and ask you if you find anything on Page 46 thereof similar to that; however, of the same import?

A. This exhibit is one which I had in mind when I was thinking about Limitation No. 5 and the moist cold and the freedom from icing. At the bottom of Column 1 of Page 46 of this exhibit and running through the top of Column 2 is a passage which clarifies what I mean. I will quote:

“At the normal setting of moist cold or secondary cold control, cut-in and cut-out temperatures about four inches back from the [1440] front edge on the side walls of the moist cold liner level with the half-shelf should be somewhere between 42 degrees Fahrenheit and 34 degrees Fahrenheit. The observable difference between cut-in and cut-out temperatures is not very great due to the impossibility of obtaining ideal thermal contact. At the bottom-shelf level the wall temperatures may normally be a few degrees colder.”

I break my quotation. Here is what to me is a important statement in relation to what I testified about Limitation 5 of Exhibit 114-A:

“However, it is not intended that wall temperatures will ever be carried at the freezing point of 32 degrees. The customer should be instructed to turn the control to warmer if icing occurs.”

Then skipping a few lines and quoting:

“The moist cold compartment air temperature

(Testimony of Norman S. Parker.)

taken with a thermometer placed in a glass of water near the center of the compartment will, at normal, be between 37 degrees and 40 degrees F. after the door has been closed overnight.”

Q. I would like to have Chart 114-B placed on the easel.

(Exhibit referred to produced.)

Q. Will you repeat anything of a similar comment with respect [1441] to the item of difference between 114-A and 114-B?

A. In 114-A opposite Limitation 5——

Q. Mr. Parker, will you explain what difference there is first, and what is your comment as to the difference?

A. Well, the difference basically between 114-A and 114-B is that 114-B is a parsing or application of Claim 4 of the Bronaugh and Potter patent, and the body of the claim is basically the same. There is an additional limitation to what we have been calling or I have been calling the differential insulation about the cold compartment—the freezing compartment and the moist cold compartment. I notice, however, there is a difference in the wording which I am not sure—the basis of which I do not understand in, opposite Paragraph or Limitation 5. In the Exhibit 114-A were the words “No —is the function of the thermostat.” In 114-B although the language of that part of the claim is the same, the words “a valve” have been added under the

(Testimony of Norman S. Parker.)

function of a thermostat. You asked me for a difference, and I am not clear in my mind as to why that was made.

Now, a further addition is, or a change is that Limitation 10 specifies a thermostat which is responsive to the temperature in the cooling compartment and controlling the on and off cycles of said liquefying unit in response to said temperature and the further limitation which is not given a number and which is merely marked "Vague" on the [1442] exhibit,

"A thermal insulation around said cooling compartment having less response to flow of heat thereto from the outside atmosphere than does the thermal insulation of the freezing compartment to insure starting of said liquefying unit by heat flow into said cooling compartment during an off cycle of said liquefying unit before that temperature in said freezing compartment approaches a non-freezing value."

Now, as to the Limitation 10 that the thermostat which is indicated at two points, if I correctly read this structure, the thermostat, this limitation said, is responsive to temperature in the cooling compartment and controlling the on and off cycles of said liquefying unit in response to said temperature.

In other words, the structure, to satisfy that limitation of the claim, must have a thermostat—it need

(Testimony of Norman S. Parker.)

not be in a specific compartment, but it must respond at least to some degree to the temperature of the cooling compartment.

Now, the thermostat which is associated primarily with the freezing compartment is shown by a black line at the upper right-hand part of the Admiral structure, and this location of the heat-responsive member indicated by the black [1443] line is in the Admiral device, if I correctly understand it, located at the bottom of the freezing cabinet where the insulation between the freezing cabinet and the cooling cabinet is at its thinnest, and in one of the service manuals is a statement that the insulation between the freezing cabinet and the cooling cabinet had been reduced to provide a heat path between the two. I had better use the language of the exhibit rather than my own because then we will know precisely what the Admiral manual said. This, again, is 5-CC-2 at Page 1 in the first, about a little above the middle of the second column of Page 1, and I am quoting:

“Also, less insulation is used between the locker of a moist cold compartment, and, consequently, the top of the moist cold compartment is cooled somewhat by the bottom of the locker.”

So there is a heat path between the two. This heat path must inevitably result in the fact that an increase in temperature in the moist cold compartment will have some effect through this thin insulation on the response of the thermostatic member

(Testimony of Norman S. Parker.)

which controls the thermostat which, in turn, controls the compressor condenser unit.

Q. Then you are disagreeing with the statement of "No" appearing opposite Item 10 with respect to the Admiral [1444] refrigerator on Exhibit 114-B?

A. Yes, that is correct, and I would also make an alteration if it were my exhibit, if I were responsible for it. Opposite the words "a thermostat itself" is the word "Yes" and from "Yes" extends a black line to a thermostat which has, again, a thick black line running down to the moist cold compartment. I would draw the line up to the thermostat at the upper right-hand corner rather than the one down in at the left of the Admiral diagram.

Q. Where is that line with respect to the thermostat drawn in Exhibit 114-A?

A. In Exhibit 114-A the line extends to the right-hand thermostat; whereas, in 114-B it extends to the left-hand thermostat of the Admiral diagram.

Q. Mr. Parker, while you are still on your feet I would like to have the exhibit removed, and I direct your attention to the Admiral refrigerator which is on the floor as Exhibit 10-A. Mr. Parker, you testified concerning your opinion as to the difference in insulation between the cooling compartment and the refrigerating compartment in the Admiral Exhibit 10-A, and I ask you if you have had any occasion to strengthen your opinion concerning that differential insulation since that date of your testimony?

(Testimony of Norman S. Parker.)

A. Yes, I read Mr. Bohman's testimony the other day that the insulation was generally uniform of a thickness, if my [1445] memory is correct, of around three inches throughout the cabinet, except that in the bottom of the moist cold compartment where the motor compressor is positioned and at the bottom of the condenser there is a thinning of the insulation of the moist cold compartment. This thinning, of course, is located at or near the zone where the room air is circulating up, through and about this condenser and is taking heat out of the hot gas; in other words, hot gas is being delivered along a hot gas pipe from the motor compressor unit to the condenser. The air flowing around this hot gas is taking the heat out so this is the zone where there is a substantial upward movement of warm air, and when I heard that Mr.—or saw that there was testimony to the effect that it was at this point that the insulation was thinned I became convinced that the result of that thinning would be at least some reduction, and probably a substantial reduction, in the effective insulation of the moist cold compartment. I was also interested in seeing the removal of this pan at which I am pointing which is, was on the back of the refrigerator. I saw this removed, and in the space between the pan and the back of the refrigerator were the tubing to which I am pointing exists, is, there were two thick batts of the insulating material under apparently some compression because when the outside cover

(Testimony of Norman S. Parker.)

was removed they swelled out. The outside cover itself [1446] which I am holding in my hand is somewhere in the neighborhood of two inches thick and it is filled with another insulating batt. Now, these additional insulating means are outside of the general insulation and in addition to the general insulation of the box.

Q. What portion of the box?

A. Of the freezing compartment of the box, so, if I understand the testimony correctly, there is a substantial, uniform thickness of insulation around the freezing compartment and the moist cold compartment, and then this additional insulation is added at the back of the freezing compartment, and it is significant to me that it is added precisely where the warm air flowing upwardly through and past the condenser flows back of the freezing compartment, so what you have here is a movement of warm air up the back of the compartment with some reduction in insulation of the moist cold compartment and a very definite increase in thickness of the insulation of the freezing compartment precisely along the path of movement, along this hot air or heated air. To me that indicates that there must be a very substantial differentiation in the insulating effect or the insulation of the two compartments.

Q. Then, in your opinion, does the Admiral refrigerator come within the terms of Claims 3 and 4 of the patent in suit?

(Testimony of Norman S. Parker.)

A. It is my opinion that it does. [1147]

Q. Mr. Parker, I refer you now to Defendant's Exhibits 114-O, -P and -Q and -R. May I hand the witness my copies? Start with Exhibit 114-O and state briefly what this exhibit purports to be. [1448]

Q. (By Mr. Cheatham): I will ask you to start with Exhibit 114-O and state briefly what this exhibit purports to be.

A. You don't have large reproduction of these, I judge?

Mr. Cheatham: Are there large reproductions?

Mr. Cuninghame: May I get them, your Honor?

The Court: Mr. Hart will get them.

Mr. Ramsey: There are no large ones of these.

Q. (By Mr. Cheatham): These are the printed small exhibits. There are no large ones mounted on cardboard.

A. Well, these are four exhibits: 114-O, -P, -Q and -R, about which Mr. Muffly testified.

Taking 114-O first, it is headed "Comparison between Claim 1 accused refrigerators and prior Anderson patent." At the left of the exhibit is the breakdown of the claims just about like what you saw in Exhibits 114-A and -B which I just testified from. At the right-hand of the exhibit are three columns. The first is headed "Admiral"; the second is "Amana"; and the third is "Anderson," in parentheses "Before Potter." Taking the numbered limitations of the claim one by one, Mr. Muffly, I believe, has put a "Yes" or "No" answer in each

(Testimony of Norman S. Parker.)

of those columns. I am going to consider only the Admiral column to the left and the Anderson column to the right because I have not paid much attention to the Amana.

Q. Mr. Parker, do you have any comments with respect to [1149] any of the "Yes" and "No" answers which Mr. Muffly has given on this Exhibit 114-O?

A. Well, there are some of them with which I do not agree, and I would comment. Perhaps it would save time if I mention only the limitations to to which I do not agree.

Limitation 5 I will read for completeness. "Air in said"—this is Claim 1——

"Air in said cooling compartment having a substantially stable temperature of about 40 degrees F. and having a humidity whose relative value is at least 100 per cent at 32 degrees F."

Of course, this is just another way of saying that you have very moist air in the cabinet. In the Admiral column Mr. Muffly has said, "No" and I would say yes.

In the Anderson column Mr. Muffly has said "Yes," and I would say no. Then coming to—I might say that there are statements—a number of statements in the Admiral circulars to the effect that a very moist climate or moist air is maintained in the so-called moist cold compartment. And, of course, the moist cold compartment is marked as a moist cold compartment on the Admiral box, about which I just testified.

(Testimony of Norman S. Parker.)

So when Mr. Muffly says that there is not a moist cold compartment in Admiral and there is in Anderson, I differ with him on both points. [1450]

Then moving to Limitation 7,

“A cooling refrigerant expander having heat conducting surfaces within said cooling compartment and constructed and arranged to maintain its heat conducting surfaces at a temperature above 32 degrees Fahrenheit while withdrawing heat from said compartment to maintain said air in said cooling compartment at said substantially stable temperature.”

Mr. Muffly says “No” as to Admiral, and I would say yes. He says “Yes” as to Anderson and I would say no.

In Paragraph 8 or Limitation 8,

A freezing refrigerant expander having heat conducting surfaces within said freezing compartment and constructed and arranged to maintain its heat conducting surfaces at a temperature well below 32 degrees Fahrenheit while withdrawing heat from said compartment.”

In the Admiral column Mr. Muffly says “No,” and I would say yes.

Again, at No. 10.

“The single liquefying unit”—I have already stated my opinion. I had better read it.

“A single liquefying unit associated with said expanders and constructed and arranged [1451] to condense refrigerant expanded by heat extracted

(Testimony of Norman S. Parker.)

from said expanders from both said compartments with volatile refrigerant circulating through said expanders being the sole heat extracting medium."

I have testified already in connection with Exhibit 114-A as to why I feel that that reads precisely on the Admiral box. So where Mr. Muffly said "No," I would say yes. As to Anderson, he says "Yes," and I would say no.

In other words, there are several definite points of difference—difference of opinion between Mr. Muffly and myself as to this 114-O.

Q. Mr. Parker, are you reading off No. 10 on 114-O?

A. Yes. No. 10 is the single liquefying unit limitation which I quoted.

Q. Did I understand you to say that you would say "Yes" as to Admiral?

A. I would say Yes as to Admiral.

Q. And did I understand you to say that you would say "Yes as to Anderson, and I ask you to refer to the Anderson patent so there will be no mistake?

A. Well, Anderson has a single liquefying unit which is associated with two expanders.

Q. Now Mr. Parker, passing to Exhibit 114-P, do you find the same points of disagreement there with Mr. Muffly's "Yeses" [1452] and "Noes"?

A. Yes. The fifth limitation is—wait a minute. In the numbering—the numbering is not, I don't think, identical to the different limitations in the two exhibits. I had best be a little careful.

(Testimony of Norman S. Parker.)

I notice in -P, that Limitation 5 relates to "the cooling refrigerant expander having heat conducting surfaces within said cooling compartment and constructed and arranged to maintain its heat conducting surfaces at a temperature above 32 degrees F. while withdrawing heat from said compartment whereby air in said cooling compartment is cooled thereby to a temperature above 32 degrees F. and maintained at a humidity whose relative value is at least 100 per cent at 32 degrees F."

As to that, Mr. Muffly said "No" to Admiral. I would say Yes. He says "Yes" to Anderson, and I would say No.

In Limitation No. 6 in 114-P, to the effect:

"That the freezing refrigerant expander has heat conducting surfaces within the freezing compartment and constructed and arranged to maintain its heat conducting surfaces at a temperature well below 32 degrees F. while withdrawing heat from said compartment whereby air in said freezing compartment is cooled thereby to a temperature [1453] well below 32 degrees Fahrenheit,"

Mr. Muffly puts "No" in the Admiral column, whereas I would put Yes. Of course, I would agree with the "Yes" in the Anderson column.

In No. 8 in -P is the limitation numbered as 10 in -O; that is:

"A single liquefying unit associated with said expanders and constructed and arranged to condense refrigerant expanded by heat extracted from both compartments."

(Testimony of Norman S. Parker.)

A single liquefying unit which condenses refrigerant expanded by heat extracted from both compartments, as to that Mr. Muffly says "No" to Admiral. I would say Yes. As to Anderson I would agree with Mr. Muffly on the "Yes." There again, the volatile refrigerant circulating through said expanders being the sole heat extracting medium, I read 9 with 8, of course, and I say that that language to me means that the single liquefying unit which is constructed and arranged to condense refrigerant expanded by heat extracted from both compartments has a volatile refrigerant circulating through the expanders which is the sole heat extracting medium for extracting heat from the two compartments.

In other words, that is what that language means to me. Therefore, I think it says precisely that. Therefore, where Mr. Muffly says "No" in the Admiral column, I say Yes. [1454]

Q. Now, referring to Exhibit 114-Q, would you make the same analysis with respect only to Item 12 at the bottom of the chart, and limit your answer to whether you would say No or Yes?

A. As to Item 12 in 114-Q, a comparison of Claim 3 with the accused refrigerators, I would say in the Admiral column "Yes" where Mr. Muffly has said "No."

Q. Would you make the same statement with respect to Item 10 in Exhibit 114-R?

A. Yes. I would say Yes instead of "No" in the Admiral column.

(Testimony of Norman S. Parker.)

Q. Mr. Parker, have you ever observed any refrigerator of the Potter Refrigerator Corporation in operation?

A. Yes. I have seen two of them in operation.

Q. Have you ever observed the condition of frosting in the cooling compartment in those two operating Potter refrigerators? A. Yes.

Q. Would you state whether or not you have seen any signs of frosting in the cooling compartment coil?

A. In one Potter box which I saw——

My Byron: Excuse me a minute. I would like to have it made clear whether or not he is talking about the structure disclosed in the patent in suit or the actual structure of the Potter refrigerator, and it's improper rebuttal also.

The Court: I think also you are getting pretty close [1455] to the line. As Mr. Parker has been testifying particularly in connection with his comments on the effects and purpose of certain elements in the patent and in the accused structures, I was wondering whether he wasn't making engineering judgments rather than patent judgments. And he has been qualified not as an engineering expert—he has told us time and again that he is not an engineering expert, and he is just testifying as a patent expert. I didn't say anything before, but I think you are getting kind of far afield now asking him his judgment as an engineering expert.

Q. (By Mr. Cheatham): Mr. Parker, in your

(Testimony of Norman S. Parker.)

opinion do you have to be an engineer to see whether a coil frosts or not? A. No.

Q. Mr. Parker, have you seen the coil in the operating Potter refrigerator about which you talked——

Mr. Byron: We renew the objection.

The Court: Well, that's all right.

Q. (By Mr. Cheatham): ——and the condition of frost with respect thereto?

A. In the two Potter boxes which I had opportunity to see in operation there was slight frosting at the point of entry of the finned—of the tube of the finned coil and there was some frosting on one and I believe two of the fins, which would be at the left hand of the Potter box, the box in exhibit. There was a slight frost—a little frost, yes. [1456]

Q. What does the Potter patent say with respect to the amount of frosting?

Mr. Byron: Now, wait. I would like to have that question again. I think I am going to object.

The Court: "What does the Potter patent say with reference to frosting?"

Mr. Byron: Well, the patent speaks for itself.

The Court: Go ahead. Go ahead, Mr. Parker.

The Witness: There is an illusion to slight frosting in the Potter patent. I haven't got the patent before me and I would hesitate to improvise. Could I have a copy of it?

(Whereupon the Crier handed the copy of the patent to the witness.)

(Testimony of Norman S. Parker.)

The Witness: In Column 6 of the Bronaugh and Potter patent, starting in Line 3, there is this sentence:

“There may, of course, occur a slight amount of frosting where the cooling coil 25 enters the compartment 14.”

Mr. Cheatham: The witness is yours.

Cross-Examination

By Mr. Byron:

Q. Mr. Parker, let us refer for the moment to the patent in suit, and in Figure 1 in the cooling compartment you will observe a milk bottle 30. What is that for? [1457]

A. I didn't hear the last word.

Q. What is that for?

A. It's to collect condensed moisture from the cooling coil 25.

Q. Speak louder, please.

A. It's to collect condensed moisture from the cooling coil 25. It's mentioned at Column 3 of the patent about Line 20, and following it says—I had better go back a little——

“The compartment 14 may have any number of divisions and shelves 27 and contains a drip collecting shield 28 by means of which condensed moisture from the cooling coil 25 is collected and drained through an outlet 29 either into a container 30 as shown or into waste pipe.”

(Testimony of Norman S. Parker.)

Q. So that that moisture might be the result of frost that had been melted, may it not?

A. To the extent that there is frost.

Q. Yes. And then, there is considerable moisture collected on the fins, is that correct, in the Potter arrangement?

A. I would think so, yes.

Q. And so that there is a great deal, then, of moisture in the form of water which drains down from the coils in Potter and through the drain portion groove 28 and into the bottle 30. That's correct, isn't it?

A. I don't know that there would be a great deal. There [1458] is obviously——

Q. Well, there is a quart bottle illustrated. That's quite a bit, isn't it?

A. Well, if it were filled. The question is whether it's filled or not. I don't know whether there would be a great deal or not. There certainly——

Q. Well, now, how——

A. It's for moisture. It's expected to be some deposit of moisture.

Q. That's right. And where does that moisture come from? It comes from the air and food in the cooling compartment, does it not?

A. Yes.

Q. So that to that extent there would be dehydration, would there not—dehydration of air and food in the cooling compartment?

A. I think there must be some in very wet foods. There undoubtedly will be some loss of moisture. Also in hot weather——

(Testimony of Norman S. Parker.)

Q. Well, now wait. Just answer my question Yes or No.

A. I can't answer it Yes or No, because it's the kind of a question to which an answer Yes or No is deceptive.

Mr. Cuninghame: May he answer, your Honor?

The Witness: If you have the misfortune to live in the type of humid climate I live in in the summer in Chicago, [1459] the air is simply loaded with moisture and every time you open your refrigerator you circulate outside wet air into the interior of the refrigerator. I know that from sad experience.

Q. (By Mr. Byron): Well, do you mean by that that there is no dehydration in the cooling compartment whatsoever?

A. No, I don't mean that at all. I mean that there must be some loss of moisture in any refrigerator and there certainly is in Potter. What the amount of it is, I couldn't tell you. I don't know.

Q. That's right. It may be a great deal or it may not be so much, you don't know?

A. That I wouldn't know.

Q. You just don't know. All right.

I would like to have—I hate to cause all this disturbance and noise of getting those exhibits here.

(Whereupon the exhibits were moved by the Crier to the better view of the jury.)

Q. (By Mr. Byron): Mr. Parker, your attention is directed to three exhibits. One is the chart,

(Testimony of Norman S. Parker.)

114-A. Another is the portion of the physical exhibit 117, and 117-A, the last two being portions of the accused Admiral refrigerator. Now, looking at Plaintiff's Exhibit 117-A, I have placed this pointer in what I regard as the cooling compartment. Do you agree?

A. No. I regard as the cooling compartment that part of [1460] the Admiral structure, that space in the Admiral structure which is surrounded by the insulation which controls the temperature in the cooling compartment. This, to me, is part of the cooling compartment (indicating). But this is the food storage space in the cooling compartment which you pointed to.

Q. Do you cool food by placing it in the insulation?

A. You cool food by placing it within the insulation, in this instance within the liner.

Q. Wait a minute. Now, this is just becoming argumentative. You place the food in the cooling compartment, do you not?

A. Yes.

Q. For what purpose?

A. To cool it.

Q. Right. So that is the cooling compartment?

A. It's in the cooling compartment.

Q. This metal——

The Court: I think Mr. Byron, there is a sharp difference of opinion between you and Mr. Parker.

Mr. Byron: All right.

The Court: And I don't think any useful purpose is going to be served to continue that line of interrogation.

(Testimony of Norman S. Parker.)

Mr. Byron: I think you are right, your Honor.

Q Now, referring to this Defendants' Exhibit 114-A where Claim 2 is parsed, and referring particularly to Element 5 [1461] thereof, I wish to read a portion of that:

“A cooling refrigerant expander having heat conducting surfaces within said cooling compartment.”

Now, by “expander,” we are referring to a coil 25 in the Potter patent, are we not?

A. That's what Potter showed.

Q. That's right. And the cooling coil in the accused structure is the coil—the coil surrounding the side and back of the cooling compartment, is that correct?

A. That's part of the system.

Q. Now, the cooling coils in the accused structure are not within the cooling compartment in so far as the space in which the food is placed, is that correct?

A. That's correct. [1462]

Q. Now, then, you have also stated, I believe, that the cooling expander or coil or duct, part of it is found on the, attached to the plate of the primary transfer plate of the primary system; is that correct?

A. That is true.

Q. You start, then, with the expansion pipe or tube attached to the primary plate. A cold zero refrigerant is passing there through; is it not?

A. That is right.

Q. Is that the surface of the cooling coil which is within the cooling compartment?

A. I am thinking primarily—after all, the surface which the claim calls for it, it is a surface

(Testimony of Norman S. Parker.)

which takes heat from the food, the initial surfaces which take the heat from the food is the liner.

Q. Let us refer to the patent in suit temporarily. Now, the coil 25 in the patent in suit is within the cooling compartment; is it not? A. It is.

Q. And its cooling surfaces are within the cooling compartment, that is correct? A. Yes.

Q. All right, now; that is not true in the accused structure. I would like to have you follow or point out the connection from the freezing coil forming a part of the cooling system [1463] which is attached to the primary transfer plate and explain how that can be construed as within the cooling compartment.

A. Well, the limitation we are discussing of the claim does not call for that. It says, it calls for heat-conducting surfaces.

Q. That is right.

A. Of the cooling compartment.

Q. I am speaking——

A. And here are the heat-conducting surfaces within the cooling compartment.

Q. Now, where is your connection between the freezing coil on the primary plate with its heat-conducting surfaces there connected to the heat-conducting surfaces within the cooling compartment?

A. Well, the Admiral manuals are very careful to point out it is important to maintain a good thermal contact between the transfer plate of the

(Testimony of Norman S. Parker.)

so-called secondary system and the transfer plate of the so-called primary system, and the heat within the moist cold compartment is removed by the coil on the primary transfer plate drawing heat conducted to it from and by the secondary transfer plate.

Q. I would like to have you take that step by step through each element.

The Court: Why doesn't he do that right after a short [1464] recess? Ten minutes.

(Thereupon, the morning recess was taken.)

Mr. Byron: I think I might shorten this cross-examination a great deal, your Honor, because I see that the patent expert, Mr. Parker, for plaintiff, and the engineering expert, refrigeration and engineering expert for defendants, are in hopeless conflict on certain points which I think are clear probably to the Court and to the jury, but just to emphasize what some of those conflicts are, just to touch them and drop them, I will refer to Defendants' Exhibit 114-A. I will refer first to that entire element 5 which I will now read:

“A cooling refrigerant expander having heat-conducting surfaces within the cooling compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature above 32 degrees F. while withdrawing heat from said compartment whereby air in said cooling compartment is cooled thereby to a temperature above 32 degrees

(Testimony of Norman S. Parker.)

F. and is maintained at a humidity whose relative value is at least 100 per cent at 32 F.”

Now, there is one of the points of conflict in which you say that is perfectly clear and defendants’ expert believes is indefinite and claims generally it is not [1465] entirely understandable. Now, that is the fact, is it?

A. That is a fair statement.

Q. Then the next element, 6:

“A freezing refrigerant expander having heat-conducting surfaces within said freezing compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature well below 32 degrees F. while withdrawing heat from said compartment whereby air in said freezing compartment is cooled thereby to a temperature well below 32 degrees F.”

Now, defendant’s expert says that is vague and this “constructed and arranged” is a function of thermostat and not anything to do with the construction of the expander itself, and you and the engineering expert for defendants are in conflict on that? A. Correct.

Q. Referring to elements 8, 9 and 10, which I will read:

“A single liquefying unit associated with said expanders and constructed and arranged to contain refrigerant expanded by heat extracted from both said compartments, the volatile refrigerant circulating through said expanders being the sole heat-extracting medium.” [1466]

(Testimony of Norman S. Parker.)

Now, you are in conflict on that, you and the defendants' expert? A. Yes.

Q. In that the expert for the defendants says that there is more than the one liquefying unit, and you say there is but one, and he says that there are two volatile refrigerants and you say there is one, and you feel that the two are the same as the one, and you are in conflict on that point?

A. No, that is not the way I would say it.

Q. Well——

A. In fact, I would say your question does not represent my position.

Q. Well, you may state it. At least, you are in conflict on those elements?

A. We are definitely in conflict on the interpretation of that.

The Court: You may state your position, Mr. Parker.

The Witness: My position is, and this is as to the 8, that you read the language together and not split up into bits the term "a single liquefying unit associated with said expanders." In other words, there has got to be not merely a single liquefying unit but a unit which is associated with both said expanders, this liquefying unit being constructed and arranged to contain refrigerant expanded by [1467] heat extracted from both compartments, the volatile refrigerant circulating through said expanders being the sole heat-extracting medium.

To me, the fact that you have—in order to carry

(Testimony of Norman S. Parker.)

heat through the secondary system from the moist cold compartment to the part of the primary coil which abstracts heat from the moist cold compartment makes no difference, that is an addition, but you still have that single liquefying unit which is associated with the two expanders and which is constructed and arranged to contain refrigerant expanded by heat extracted from both compartments, and that is the only structure in the Admiral box which has those characteristics, and, to me, it is a single liquefying unit associated with the two expanders.

The other secondary unit is merely a heat-transmitting means for picking up heat and equalizing the flow of heat, getting the heat to flow through the liner surface to a point right back of the liner surface of the moist cold compartment where it is picked up by the volatile refrigerant which is the sole refrigerant which takes the heat from the two compartments. To me, that language is perfectly clear.

Q. In the accused structure, Mr. Parker, there are two systems or circuits, a primary circuit carrying one refrigerant—this is in the accused—and in the secondary [1468] another refrigerant; that is correct, is it not? A. That is correct.

Q. And those are two different refrigerants; are they not?

A. Well, I don't know what the refrigerants are. They are different bodies of refrigerants, separate bodies.

(Testimony of Norman S. Parker.)

Q. Do you know if there is any advantage in having one refrigerant circulating in the primary system and another refrigerant circulating in the secondary system? A. I wouldn't know.

Q. Well, I might tell you. It may refresh your memory.

Mr. Cheatham: Objection, your Honor.

The Court: Mr. Parker is not an expert. He just knows how to read a patent, and that is all he claims to do. I think sometimes he has gotten a little over it.

Mr. Byron: That is what I thought.

The Court: But you cannot ask him that question.

Mr. Byron: I thought perhaps I would be entitled to the same privilege on that. Well, be that as it may, the accused refrigerator is a cold-wall type, is it not?

A. Yes.

Q. And the Potter is a finned-coil type; correct? A. Correct.

Q. They are different structurally, are they not?

A. Yes, there are structural differences. [1469]

Q. What is that?

A. There are structural differences, yes.

Q. The potter patent has a freezing coil and the cooling coil in series, and the same refrigerant passes through both of them; correct?

A. That is correct.

Q. That is not so in the accused refrigerators, is it?

(Testimony of Norman S. Parker.)

A. No, I do not agree with you there. The only refrigerant which takes heat from the two compartments flows through the duct which is, part of which removes heat from both compartments, and those ducts are in series.

Q. I am afraid you did not answer my question, so I will have to ask it again, Mr. Parker. I think you argued another point.

A. I am sorry; I misunderstood your question.

Q. Let me put it to you again. The Potter patent has a freezing coil and a cooling coil in series, and the same refrigerant passes through both of those coils?

A. That is correct.

Q. I say, this is not so in the accused refrigerators. In the accused refrigerators you have a primary freezing coil and a secondary freezing coil, and they are not in series, are they?

A. Oh, you mean the arrangement of the——

Q. The coils are not in series? [1470]

A. Well, the same—they are in series——

Q. Point out where they are in series.

The Court: Wait a minute; let the witness answer.

The Witness: Well, if you take—looking at 114-A—this does not show it so clearly.

Q. (By Mr. Byron): Let me put a simpler question to you, and then I think you can take care of it. Let us say that we have two sections of hose. We connect up the first section to the faucet for sprinkling the lawn, and then we attach the second

(Testimony of Norman S. Parker.)

section of hose to the first section. Those sections are in series, are they not? A. That is right.

Q. And the same water goes right through both of them? A. Right.

Q. Now, then, in a secondary system you have two different sections. You have one section through which—we will go back to the refrigerant—it flows, and then you have a separate circuit entirely through which a refrigerant flows; now that is correct, isn't it?

A. Yes, there is a separate refrigerant in this second circuit.

Q. That is right. That is all the question was. We brought out the fact that each coil in the accused, in the accused structure, has its own separate refrigerant.

A. Well, that secondary system has its separate refrigerant. [1471]

Q. That is all I asked. A. Yes.

Mr. Cunningham: Now, your Honor, I object. I think he has more answer than that.

The Court: You can bring that out on redirect. He asked the question. If you want to add anything to it, Mr. Parker, you are permitted to do it, of course.

The Witness: The way the question was asked, I think that is the complete answer. He asked me a simple question. I do not want to get argumentative. I would rather answer the question the way he gives it to me.

Q. (By Mr. Byron): Your attention is directed

(Testimony of Norman S. Parker.)

to Defendants' Exhibit 114-G in which Claim 2 is parsed, and an application is made in part to Gibson Patent 21941 and to the Admiral structure, the accused structure. Now, the Gibson patent discloses a secondary circuit, does it not? A. It does.

Q. It is substantially the same in that regard as the accused structure; correct?

A. There are differences in detail——

Q. I mean, insofar as the secondary circuit is concerned they are identical; are they not?

A. Yes; that is right.

Q. Then you agree with the statement made in behalf of Potter in the file wrapper of his patent, 2,219,789, Page 27: [1472] "Obviously,"——

The Court: I think he ought to be shown the document.

Mr. Cuningham: It is a very limited-purpose document, your Honor. You recall the admission.

Mr. Byron: It is Exhibit 118.

Mr. Cuningham: That is the file wrapper, Potter.

Q. (By Mr. Byron): Just one question in connection with it, your Honor. Turn to Page 27, please, about in the middle of the page, and you will see a sentence starting, "Obviously."

A. Yes.

The Court: Show it to him, Mr. Byron.

Q. (By Mr. Byron): Well, do you see it?

The Witness: I see it.

Q. I will read a sentence to you. Check me and see if I am reading it accurately:

(Testimony of Norman S. Parker.)

“Obviously, Gibson does not have a secondary boiler in the food compartment.”

Do you see that? A. Yes.

Q. Do you agree with that statement?

Mr. Cheatham: Your Honor, I think the witness should be permitted if he is going to answer that question, which I think is immaterial—be given an opportunity to read the whole document and study it and take that sentence in its context to see whether he can agree or disagree. [1473]

The Court: I think he can ask the question without regard to what Potter says, and I do not think it really makes very much difference what Potter says.

Mr. Cuninghame: If your Honor please, that is the whole point, and it is certainly immaterial as to what this witness says about what Potter says.

The Court: Let me ask a question. Mr. Parker, supposing that Potter thought that the compartment was the portion where you put the food in and not the portion on the outside. Would that make any difference?

The Witness: Not to me, no, your Honor. I mean, what Potter or Potter’s attorney said in some prosecution of some application for another patent, I do not think that I——

The Court: Suppose he said it in this patent.

The Witness: Well, if he said it in the patent itself clearly and put a limitation on himself, why, then, I might—I do not know; that is theoretical. I would have to see if, of course, to see what he said

(Testimony of Norman S. Parker.)

and what the context was and what is in the patent.

The Court: Mr. Parker, does it make any difference what Mr. Potter meant about the cabinet?

The Witness: I would not say that it made too much difference because, after all, Mr. Potter was not a patent lawyer. He might entirely misunderstand the technicalities [1474] of the patent law. I do not know that his impression of what is an equivalent or what is what would really make much difference.

The Court: In other words, if he thought that the inside of the cabinet where you put the food in was the place to have the coils, if it was described the way it was described in the patent, is it your contention that what Potter thought would be immaterial? It is what the language says.

A. I think what the language of the claim says construed in relation to the specification and drawings is what controls. Potter might even change his mind over a term of years, your Honor.

The Court: If you and some of the other people disagree as to the meaning of what the interior of the box means, what does that indicate? Here specifically Mr. Muffly says one thing; you say another. What does that indicate to you?

The Witness: Well, it indicates to me that in any patent, any patent language, there may be room for differences of opinion; otherwise, we would not have patent suits. I do not agree with Mr. Muffly, and Mr. Muffly does not agree with me. I have not heard Mr. Muffly say anything which leads me to think that I am wrong. My opinion as to how these

(Testimony of Norman S. Parker.)

claims read and as to how the language should be interpreted has not been changed by anything I have heard Mr. Muffly say. [1475]

The Court: Even if Mr. Potter agrees with Mr. Muffly, that would not make any difference to you?

The Witness: Even if Mr. Potter agrees with Mr. Muffly, that would not make any difference to me unless it was in this patent in suit in some way in which it would be actually binding on the holder of the patent in the context of the patent.

In other words, if in this reissue claim it said that all parts of the expander system, including the part where the refrigerant is evaporated has to be in the food storage compartment, that is in the claim, why, then, that is all there is to it, but the claim does not say that.

The Court: The claim does not state this term nor many terms; is that right?

The Witness: That is right.

The Court: Then you have to make certain assumptions?

The Witness: You have to make some assumptions. As I say, there is always some possibility as to a difference of opinion as to the language of a patent claim. If there was not, there would be any patent suits.

Mr. Byron: The cross-examination is closed.

Redirect Examination

By Mr. Cheatham:

Q. Mr. Parker, can you give us a rough estimate of how long [1476] it would take you to mark on

(Testimony of Norman S. Parker.)

defendants' charts, Exhibits 114-A to -R, by circles, the words "Yes" and the words "No" on which you disagree with Mr. Muffly?

A. Oh, I suppose I can——

Mr. Byron: I think that is improper to mar our exhibits.

The Court: The exhibits are the exhibits of the Court, and if he wants to mark anything up that is perfectly all right so long as they know it is not yours.

Mr. Cheatham: May he do it during the recess, please?

The Court: That is all right.

(Discussion off the record.)

Mr. Cheatham: No further redirect.

The Court: That is all, Mr. Parker.

(Witness excused.)

The Court: Is that the plaintiff's case?

Mr. Cuningham: Yes, your Honor. I have a certain worry about some exhibits, but I understand we can check those later.

The Court: It has been understood and we have agreed earlier, that even though you close your case you have the privilege of introducing exhibits which have been offered but not admitted. You cannot introduce any new exhibits.

Mr. Cuningham: No; no, I understand that.

The Court: You may check the record to see if

(Testimony of Norman S. Parker.)

an [1477] exhibit has been admitted or if it has not been admitted and it has been offered. You can do it at a later time.

Mr. Cuninghame: I must say I think our record is pretty good at that, but I would like to check. That is all, your Honor.

The Court: Mr. Byron, do you have anything further?

Mr. Byron: Nothing further, your Honor.

The Court: I think what we ought to do now is take a recess until about 1:00 o'clock. That will give everyone an opportunity to collect their exhibits and do other things that are necessary. We are going to start argument this afternoon. I think we will be finished. We are going to try to finish the argument. You are excused until 1:00 o'clock.

(Thereupon, the jury retired for the noon recess.)

(The jury having retired, the following proceedings were had:)

The Court: Mr. Ramsey?

Mr. Ramsey: We renew the motion we made at the end of plaintiff's case and as an additional ground, on the ground of vagueness and indefiniteness, that that has not been spelled out more particularly as brought forward in the motion.

The Court: Did you read the memorandum submitted by Mr. Cheatham this morning on the question of amendments to [1478] the specifications?

Mr. Kolisch: I have just received it, your Honor. I have not had an opportunity of reading it.

The Court: You reassert all the grounds set forth in your written motion together with an additional specification of vagueness. I have the motion made previously, but I think that in the interests of orderly procedure this should either be read into the record or a new one filed, and will you do that by 1:00 o'clock this afternoon?

Mr. Ramsey: We will do it, your Honor. Would it be satisfactory if it is read into the record? It might be a little difficult to get it all rewritten by that time.

The Court: Yes.

Mr. Cuninghame, this is the time I told you to make your motion.

Mr. Cuninghame: If your Honor please, I have given, I must confess, only one copy, I had my own copy, and I gave Mr. Kolisch only one copy because that is all I had, and in that, Mr. Kolisch, is a document labeled "Plaintiff's Requests for Instructions to the Jury, 90, 91 and 92." Those are changed to a motion. I so move, your Honor.

The Court: You are moving now that certain issues be withdrawn from the jury. Will you read them into the record?

Mr. Cuninghame: Thank you, your Honor.

I move that the following issues be withdrawn [1479] from the jury:

The issue of validity of the reissue patent, No. 23058, upon the grounds that the defendants have failed to sustain their burden as to this issue by the testimony of Mr. Muffly and the other evidence. [1480]

I further move for withdrawal from the issues to be submitted to the jury any issue with respect to the legal right of the plaintiff to maintain this action, upon the ground that the defendants have failed to submit sufficient or in fact any evidence that would negate such legal right.

I further and finally move to withdraw from the issues to be submitted to the jury any issue of infringement of claims 1, 2, 3, and 4 of Reissue Patent 23,058 upon the grounds that the defendants have not met the plaintiff's proof as to infringement and, in fact, have admitted in their booklets, service manuals, and by the testimony and in the patent of Mr. Morton that the secondary transfer plate assembly amounts to no more in substance than a mere fin attached to the primary transfer plate coil, which coil is in series with the primary freezer coil in both defendant structures.

The Court: All right. Plaintiff's motion is denied in toto. Defendants' motion will be taken under advisement. This is in accordance with our original understanding and the parties will argue the case, and under the Federal rules I have—I will have time to consider the motion at a subsequent time.

Now, we are coming back at 1:00 o'clock. I think that if Mr. Kolisch and Mr. Cheatham can come to my chambers at 12:30 we will take a quick run-down on the instructions [1481] and there may be

some questions that I want to ask.

All right. Recess until 1:30.

(Thereupon, at 11:50 o'clock a.m. a recess was taken until 1:00 o'clock p.m.)

Afternoon Session

(Court reconvened, pursuant to recess, at 1:00 o'clock p.m., at which time arguments were rendered by counsel for the respective parties, reported but not transcribed, at the request of the respective parties.) [1482]

United States District Court, District of Oregon
Civil No. 6016

MOIST COLD REFRIGERATOR CO., INC., an
Oregon Corporation,

Plaintiff,

vs.

LOU JOHNSON CO., INC., an Oregon Corpora-
tion, and MEIER & FRANK COMPANY,
INC., an Oregon Corporation,

Defendants.

and

ADMIRAL CORPORATION, a Delaware Corpo-
ration, and AMANA REFRIGERATION,
INC., an Iowa Corporation,

Defendants-Intervenors.

November 30, 1955

Before: Honorable Gus J. Solomon, District Judge.

OPENING ARGUMENT OF MR. CUNINGHAM

Mr. Cuningham: If your Honor please, Ladies and Gentlemen of the jury: I think I shall read this opening argument for the plaintiff because I think it is the only safe way in a case like this to be sure what you say and to be clear. I am afraid it will be not as interesting as if I were to extemporize, but I think it is better. So I shall stick to the book. I feel that way because I think it will be less interesting.

First off, I do wish to thank you on behalf of our client, Moist Cold, for your very patient attention to our efforts to piece together the important events and facts of the last twenty-seven years of the history of this patent in suit. I want also to thank each of you personally for the very courteous attention that you have given at the trial and to learning the tribulations of the parties in this case and the way in which you have been here every day and in which you have succeeded in devoting your constant attention to all of the witnesses here and the way you have surmounted the difficulties occasioned by the unusual snow and rain. I want to apologize for any act of mine that has caused the Court to reprimand me.

We patent lawyers are not very apt at jury trials and at the same time I want to assure you that every effort on my part was prompted by my belief in the justness of my [2*] client's cause and my desire to have you hear all of the evidence which seemed to me, perhaps erroneously, but sincerely

*Page numbering appearing at top of page of original Reporter's Transcript of Record.

relevant in this case. I am beginning to realize it is true that the patent lawyers try a case differently from other lawyers, and I have tried my best to get the facts before you as well as I have been able to do.

This case in which it is now your duty and privilege to determine is for the infringement of Re-issue Patent 23058 granted December 14th, 1948, to the then owners of the original patent, 2,056,165, which had previously issued October 6th, 1936, as a result of an application filed on February 16, 1931. The original patent application was filed on behalf of Bronaugh and Potter, Mr. Bronaugh being the first witness you heard on behalf of the plaintiff, and Mr. Potter being the person whose deposition you heard and who now lives in New York City.

Mr. Bronaugh assigned his interest in the patent to Mr. Potter very early in the history of the case, and you heard him testify to his signature on the assignment. Various assignments of the patent have been made by successors in ownership until the last assignment which assigns the entire right in the patent to the plaintiff, Moist Cold Corporation.

The Plaintiff's Exhibit 17 is the certified copy of the assignments. I will just drop it here. [3]

The Court: All of the exhibits will be delivered to the jury at the time of their deliberation.

Mr. Cuninghame: I said twenty-seven years of history, and that takes us back to about November of 1928. Actually, perhaps, the history should go back many years before that to the early days of Mr. Potter himself; however, we are concerned with

the present invention and will pick 1928 as a good point to begin. We hope that the evidence presented to you has caused you to cast your minds back to the period when this invention was created here in Portland; that is the era as of which you should appraise this invention, not as of now. It is difficult but really necessary for you to try to do that.

Beginning late in the year 1928 Mr. Bronaugh took charge of the Potter Refrigerator Company, first as Manager of the Potter Refrigerator Sales and then as President of the Potter Refrigerator Company when it was formed in March of 1929. It was late in the fall of 1928 when Mr. Bronaugh took charge of the manufacturing activities of the Potter Refrigerator Company which had been manufacturing refrigerating systems for many years. In casting your minds back we feel that you will have many reminiscing moments. This was near the end of the Roaring '20's just before the stock market crashed. This was the era of the Black Bottom, the Charleston, hobble skirts and Rudy Vallee. [4] This was the beginning of transcontinental aviation, and a man named Charles Lindbergh had just flown the Atlantic in a single-engined plane. It still took five days to get from here to Honolulu, and the iceman was making daily deliveries at most back doors throughout the United States of America.

A number of companies were then putting out dry cold electric refrigerators which had a small freezing coil to hold ice cube trays, and the Potter Company was competing with them in the Portland

area by installing its refrigeration systems in the old iceboxes; sort of funny to think of now when we consider our gleaming porcelain jobs such as the Admiral refrigerator, Exhibit 10-A, and the Amana refrigerator, Exhibit 10-B. However, it was serious then since no one knew exactly which way the business was going and ice was still cheap.

As a small company with a very limited local market, the Potter Company had to have consumer satisfaction, so Mr. Bade, whom—I am sure you will recall his deposition—the service man, came into the picture and his job, in addition to assembly and certain experimental work, was to make certain that the customers remained satisfied. There were other people in the Potter Company in contact with the customers and through them a picture of dismaying dissatisfaction slowly appeared. The ladies of Portland were not happy [5] with their modern convenience, the electric refrigerator, and some of them wanted the iceman back. Why? Well, foods dried out, salads wilted, butter absorbed odors from other foods. At first Potter and Bronaugh thought that this was the natural resistance to change which almost everyone encounters in promoting a new product, and they thought that a program of education would show the ladies of Portland that they were wrong and that Mr. Potter and Mr. Bronaugh were right. However, by the spring of 1929 they were convinced that they, not the ladies of Portland, had been wrong. They faced this fact, and what they saw was an alarming prospect. If there was no satisfaction, there would be no more

sales and the company would surely fail. Something had to be done, and they set to work, holding numerous conferences and scribbling on pieces of paper, which Mr. Bronaugh told you that he used to throw in the round file 13 on the floor as soon as they had served their purpose, and which Mr. Herrmann and Mr. Potter have also mentioned.

Both Mr. Potter and Mr. Bronaugh have stated that it was through their joint efforts that an idea was slowly and laboriously born. Thus the first phase of this invention had arrived, the recognition of a need in the art which had not been apparent to those skilled in the art.

Mr. Potter had had several years of experience [6] with his compressor and with his dry cold refrigeration system. Mr. Bronaugh was a natural-born mechanic, as Mr. Potter testified. Mr. Bronaugh was a failure as a salesman but a success as a plant manager. Mr. Bronaugh had always played with machinery. They put their heads together and shifted ideas back and forth until it became apparent that what they needed was a two-compartment box, one for food to be kept moist and cold, as foods were kept in the old icebox which the ladies of Portland were accustomed to using, and another for making ice cubes and frozen desserts and keeping frozen foods such as the Birds Eye frozen vegetables, where were just beginning to appear on the market in any quantity. Thus, sometime in the spring of 1929 the second step in the creation of an invention came about.

Invention is a two-step process: First the mental concept, and then the physical reduction to practice of the idea. That constitutes invention in our jargon.

Now, of course, merely seeing what needs to be done doesn't mean that it can be done. It is just like Jules Verne when he wrote in the 1880's about a trip in a rocket to the moon. No one yet has been able to do it. So, as in the launching of any new invention, the inventors started experimenting, using for their first experimental models old iceboxes, Fir-Tex insulation board, old radiators [7] and evaporators, and the Potter refrigeration pump which was readily available to them. The first box which they made had the freezing compartment beside the moist cold compartment, but essentially all of the elements of the combination were there. No sooner was one box made than they tried another and another, as Mr. Bronaugh and Mr. Potter have verified. Also verifying that were Mr. Herrmann and Mr. Bartlett and Mr. Bade, all disinterested witnesses to these important facts, the facts of dates.

Tests were run constantly, and finally they achieved their desired result of a food freezing compartment which could be maintained at a temperature of 10 degrees Fahrenheit and a moist cold temperature of 40 degrees Fahrenheit in the food cooling compartment and a temperature of minus 10 degrees Fahrenheit in the ice cube freezer, all this, of course, in one box under the control of a

single thermostat and operated by a single refrigerant liquefying unit.

This has been amply corroborated by the testimony of Mr. Bade, the service man, who you will recall came to work in June of 1929 and states that the experimental boxes were being tested in October of 1929 by Mr. Bartlett, the salesman who came to work for Potter in November of 1929 and saw the experimental boxes being tested during his [8] first month or two of work; and by Mr. Herrmann of Eugene who then had charge of the shop who corroborated this, also. Mr. Herrmann came to work for Mr. Potter in the early summer of 1929, and the boxes were built directly under his supervision. By the spring of 1930 the inventors had successfully completed, tested and proven their invention to their own satisfaction. Others had witnessed the tests. In the spring of 1930 the invention was completed by an actual reduction to practice. That is the date of the invention in suit.

The invention having been proven, Messrs. Bronaugh and Potter proceeded to build a commercial model, just as any prudent manufacturer builds commercial models today. Mockups—at first crude boxes—were built, one of which was called the Barry box. It has been so-called throughout this case because it was Mr. Barry who bought it. [9]

A different style of box was built by them in the early summer or fall of 1930. This was a wooden box built by the Matthews Company here in Portland and incorporating a brine tank and other metal

parts fabricated by the Anderson Company here in Portland. Ladies and Gentlemen, we have that box here. It is not this one; it is the one covered up by these exhibits, and you can just glance at that and compare it mentally with the large drawings that you have seen several of. Here is one on Exhibit 9-A-1. You will see the exact correspondence. That, we are fortunate and proud to say, was the model for the patent drawing.

Of course, Mr. Bronaugh and Mr. Herrmann have both identified this. Mr. Bade said he worked on it. Mr. Bronaugh stated that he knew it because he built it. Then a metal-covered box of the same general type was built, and that is the one I first went to, after that five more, then six more. Mr. McChesney from Seattle bought this particular box, the one I have just opened and referred to, 11-A. He bought the box in June of 1931 and used it in his home until 1950. When he bought it, he replaced a two-year-old conventional dry-cold refrigerator which he testified was in good condition. Plaintiff's Exhibit 22, which is a black photostatic copy of a letter of September 12, 1931, a letter from Mr. McChesney to the builders of this box, extols the virtues of the box and states his complete satisfaction with its operation and the [10] solution of the problem. This is a 24-year-old letter. This box about which Mr. McChesney has testified is Plaintiff's Exhibit 11-A, and, as you know, is here on the floor alongside these modern shiny boxes. The actual drawing, as I said, of the patent was made from this particular box as stated by Mr. Potter. Mr.

Parker, plaintiff's expert, said that he would be surprised if the drawings of the patent in suit were not made from drawings of that box, and the defendants have brought forward no evidence to disprove his identification. These dates are always important, and that is the purpose of dates.

Mr. Potter—and so I will not appear to be mysterious about it, the reason we are anxious for these dates is the Gibson patent, which, as the charts and all the records show, has the file date of September 30, 1930. We antedate or come ahead of the Gibson patent, and we won't have to bother with it.

Mr. Potter then filed his patent application in February, 1931, and the patent was granted as previously stated. Now there is a popular misconception that the filing date of a patent application is the important date, but we trust you realize, because of our careful attention to the evidence supporting the history of the invention prior to the filing date, that that is not always so, and in this situation with which we are concerned now here in Court, [11] the important date is the date of actual reduction to practice of the invention in a proven model which is demonstrated to achieve the results sought by the inventors. That is the important date in this case, and we think that we have proved beyond a shadow of doubt that the invention date was no later than the spring of the year 1930. There may be differences in the exact date which each of the five mentioned witnesses remembers, but all agree that the first complete and successfully

proven refrigerator embodying the system of the patent was created, operated and tested sometime between the fall of 1929 and the spring or early summer of 1930. Gibson has September 30, 1930.

Mr. Potter then went to Buffalo in the spring of 1931, shortly after filing his patent application through the attorney here in Portland, because by that time he had realized that in order to launch the new product on the market he had to go to the source of cabinets, just as most of the refrigerator manufacturers have at one time or another in the past and still do today. So he moved to Buffalo where the Jewett Company was making and engineering the very finest iceboxes then known in the United States, and he made arrangements for them to supply him with cabinets into which he could place his pump and his refrigerating system. You will recall the deposition of Mr. Bommer read earlier in the case. You may recall, and I shall recall it to you, that he left his [12] position as Chief Engineer of the Jewett Company, this fine engineering and refrigeration engineering concern, to come as chief engineer of Potter because of his conviction in the potential of this invention, and he is today one of the best qualified men in refrigeration engineering in this country, as I think the deposition clearly states.

It was not until sometime in 1932 that the Tricold refrigerator was launched. It very shortly later thereafter became the Potter Refrigerator Company. This launching was accompanied by the 20-page advertisement in the Electrical Refrigeration

News of February 24, 1932, as exemplified by Plaintiff's Exhibit 3-U and is bulky but not hard to read. It shows the launching of this new invention. Numerous witnesses, including General Electric Company's Mr. Quinn—he was then the Manager of the General Electric Appliance Division and later became vice-president in charge of the Appliance Division of General Electric Company—and Mr. Zimmerman, who was then his assistant and later became manager of the Appliance Division of General Electric Company, and they have both had depositions in this case as to the tremendous impact that this announcement made upon the refrigeration industry as a whole. You heard the depositions of these gentlemen concerning the efforts of Frigidaire and General Electric to satisfy the public demand which was slowly creeping into their consciousness at this late date. They put out hydrator pans— [13] that is, Frigidaire did—and the General Electric Company put out two refrigerators bolted together and to operate at different temperatures, all to meet this problem of dehydration. That these great companies with their research departments had not previously seen the need or made any attempt to meet it is a tribute to the foresight of Mr. Bronaugh and Mr. Potter. It is more than that. It demonstrates that this invention was not obvious. In fact, it seems absurd to me to assert, as defendants do here, that the invention was obvious to all. The cold, silent facts of history prove how absurd that is. If it had been obvious, why didn't others

do it? They had the means at their command. It was a new combination of really old elements, and Potter and Bronaugh were first.

The defendants have challenged the operability of the Potter refrigerator which was produced in Buffalo, and we have met that, we submit, by demonstrating with defendants' own Exhibit 116, the little Potter, the newest Potter in the room I am sure you all recognize, which was identified by Mrs. Kobernuss. She was the home economist for the Potter Refrigerator Company in Buffalo during those early years. She identified it as the type which she sold and helped to sell. Mrs. Kobernuss has demonstrated the satisfactory operation of the refrigerators produced by Potter in Buffalo and testified as to having helped sell several hundred, all of which replaced conventional, almost altogether replaced conventional [14] electric refrigerators in the home.

Now, like any newcomer in an entrenched industry, the Potter Refrigerator Company in Buffalo encountered difficulties. Jewett could not supply cabinets for Potter. Apex and Sanitary who were, incidentally, licensees and substantial licensees under the Potter patent, gave up supplying cabinets to the Potter Company while they kept on supplying cabinets to other more established companies, the big ones in the industry. Cast your minds back again to the troubled times in 1938 and Munich in 1939, and the Blitzkreig in 1940 and Lend-Lease, and remember 1941 to 1945. Eventually during this period steel was cut off for most civilian

uses, but in the period about which we are concerned, 1938 and on, other manufacturers were nevertheless able to obtain cabinets from the cabinet manufacturers and to put out electric refrigerators embodying the invention of Mr. Potter and Mr. Bronaugh. Potter was unable to do so as a newcomer in the business, and eventually there was nothing left for him to do but to bring suit in 1943 against one of the infringers. During the course of that trial, and of its outgrowth, the details of which we will not bother you with, a defect in the original patent appeared in the claims which required correcting. In June of 1948 an application for reissue of the patent to cure this defect in the claims was filed, and the Patent Office after carefully considering the matter [15] again granted a patent, namely the reissue patent here in suit, on December 14, 1948.

This suit, Ladies and Gentlemen, was filed here, the birthplace of the invention, in 1951. It was originally against two local defendants, as the Court has told you. The two manufacturing companies, Admiral and Amana, as we hoped and invited them to do, have stepped in and taken over complete charge of the suit and are responsible entirely, so that local defendants are not now involved in any respect whatsoever. Suffice it to say that the patent was held in this case to have been properly reissued—here this very case—and you are now here determining the factual questions of whether the patent is valid over certain objections which you have

heard the defendants advance, and whether the patent is infringed by the Admiral and Amana refrigerators of the two-compartment type.

You have heard that it has been agreed by all parties that the Admiral refrigerator here in Court, Exhibit 10-A, is representative of all Admiral refrigerators of this particular type, of the accused type, so that you need pay no attention to model numbers and can consider all of the Plaintiff's Exhibits 4-CC-1 to 4-CC-6, the Admiral Service Manuals those are and they are a little obscured because they are filed along with other papers in what is labeled "Answer to Interrogatories Addressed to the Admiral Corporation," and [16] I believe with that Exhibit 4-DD, the answer of Amana Company, go hand in hand. They contain the Admiral Service Manual and Plaintiff's Exhibit 8-A-1, this large chart to which I am now pointing, and other large charts—strike that—just this chart and large diagram here which to my mind most clearly represents what we are talking about. It is almost as clear as the physical exhibits, taken directly from these Admiral Service Manuals, and you may consider that as representative of all of the defendants' refrigerators.

You have also heard that it has been agreed between all the parties that if it is found that the Admiral refrigerator infringes the patent, then you may likewise find that the Amana refrigerator as herein exemplified by Plaintiff's Exhibit 10-B, the physical exhibit, also infringes. We have therefore

confined our testimony to the Admiral refrigerator illustrated in Exhibit 8-A-1, and we suggest that you confine your attention to that likewise.

Now to go back to the period following the war. The successors to the Potter Refrigerator Company have their patent in December of 1948. The patent has for the second time been examined by the United States Patent Office Examiner and been twice considered over the patents which are listed at the end of the copy of the patents. That is the certified copy of patent, Defendants' Exhibit 2-B. Incidentally, that list includes the most important prior art relied upon by the [17] defendants here, and that merely means that those prior patents were before the Patent Office. You will remember the Davenport patent, 1,731,711; and another, 1,769,112; and another, 1,769,117, and, above all, Anderson Patent No. 1,439,051. Those were all considered by the Patent Office. Now, Mr. Muffly, the refrigeration expert with his collection of 100,000 patents, who testified for the defendants here, said that the greater part—no, he said that a little less than half of that collection, a little less than 50,000, were issued prior to 1925, and he told you on cross-examination at the close of the defendants' case that in his opinion this Anderson patent was the closest prior art to the patent in suit. That is a great aid and simplification for all of us. Accordingly, we suggest that you forget all the confusing testimony about the Davenport patents and concentrate on Anderson as being the one most likely to

help you in determining whether Messrs. Potter and Bronaugh had an invention. One would think that a patent which had been twice passed by the Patent Office and had survived the litigation to which it had been subjected would draw people eager to produce this refrigerator of proven value, under a license. But Mr. Potter found that such was not the reality. Admiral Corporation was on the market with its Dual-Temp refrigerator. You will see from this stack of advertisements of Admiral Corporation, Exhibits 3-LL-1 through to the end of the series, that the [18] advertisements run from prior to 1948, the date of the reissue patent, right through to almost the present time. Here was a well-established company on the market that seemed to be appropriating the Potter and Bronaugh reissue patent after it had come out in December of 1948. There was nothing left to do but bring this suit.

You may have heard the defendants advance their argument that a patent is a contract between the Government of the United States and the inventors whereby, as the Court has advised you, the patentees are granted the right to exclude others from manufacturing, using or selling the invention for a period of 17 years. In this case, remember it is 17 years from the date of grant of the original patent and the reissue patent is substituted for the surrendered original patent as of the date of its grant, the reissue grant, which in this case is December 14, 1948. That means there can be no recovery for any period prior to December 14, 1948,

the original patent being surrendered necessarily in order to get the reissue. However, of course, the reissue cannot run from its grant for 17 years. It runs only for the balance of the life of the original grant, which was for 17 years from October 6, 1936, so that brings us to October 6, 1953, a little over two years ago when the patent in this suit expired, and there can be no recovery after that date. It has gone into the public domain. In fact, when this reissue patent [19] was granted, it had a little less than three years of its 17 years of life. Mr. Potter and his backers had taken the risk on this patent in 1931 and '32, and prior actually, and the company, as you will recall, was started in Buffalo in 1931. By 1951 it was realized by Mr. Potter and his backers that there was nothing left to do except to bring suit against the infringing manufacturers in an attempt to recapture the losses which he had sustained, or, rather, which, as you have heard him testify in his deposition, his backers had sustained. About one million dollars had been poured into Mr. Potter's attempts to establish his patent rights over that 27-year period.

Now we fully agree with the defendants' contention that a patent is a contract granting the right to exclude others from manufacturing, using or selling, but it is more than a mere contract. As I told you in our opening statement, we like to think of it as a headstart on competition. That is what we think a patent really is. You must look

back to the early days when the founding fathers of the Republic were framing the Constitution of the United States. In that Constitution they saw fit to provide that Congress shall have the right to provide legislation to promote the useful arts and sciences. It is under this constitutional provision that our patent laws were framed. We like to look at this as being one of the reasons for our country's greatness, the necessity [20] for which was foreseen by the framers of the Constitution. Remember that this was then a small country fighting the ties by which Great Britain hoped to draw materials from the wilderness colonies of America and utilized them in fabricating finished goods at home. This provision of the Constitution was framed in order to encourage new industries and to give the entrepreneur a headstart on competition. It does not always work out when the realities are known.

We think that defendants' quibbles in this case, if they were sustained, would be a travesty on justice, their contentions about vagueness, lack of words such as "fin coil" in the specification, no definition of "air" or air at 32° Fahrenheit and the like. Fortunately for this country and the encouragement of future inventions, we usually have applied common sense to these problems and have established the rule that the disclosure in a patent application is addressed to the person skilled in the art. In other words, if anyone skilled in that art can construct the invention by studying the patent in the light of his special knowledge in that art, then it does not matter that the i's were not dotted

and the t's were not crossed. You have heard Mr. Muffly, the defendants' own expert in the refrigeration art, state that he could construct a refrigerator according to the patent disclosure. Why should inventors be penalized because lawyers can quibble about words? We think you will [21] see the right solution to this question and decide it forthwith in plaintiff's favor.

Incidentally, it speaks cogently of the weakness of the rest of defendants' defenses in this case. The Court has told you that there is a presumption of validity in favor of a patent and that there is the heavy burden on the part of defendants of proving that the patent is invalid by clear and convincing evidence. He has also told you in the beginning of this case that the plaintiff, we, had the burden and the definite burden to prove infringement by a preponderance of evidence as we lawyers speak of it. We think these defendants have utterly failed in their attacks upon the validity of the patent by these technical quibbles or by anything else. I know that to me their only evidence in this case, as presented by their expert, Mr. Muffly, was anything but clear and convincing. In fact, I found it very confusing and unconvincing. The same is to be said about their attempts to invalidate the patent on prior art patents, some of which are not even prior. We suggest that you consider just one, for example, the patent to Lundgaard about which Mr. Muffly testified. You will notice that he was clear and convincing in most respects when it came to something about which there could be no doubt, such as there

being a cabinet present; but when he was asked the direct question in regard to the Lundgaard patent as to whether there was a "refrigerant expander in the cooling chamber," he equivocated [22] and the Court stepped in and asked him if his answer was "Yes" or "No"; whereupon, he said that there was a misuse of the word "expander" in the patent. The same is true about all their efforts in regard to the Davenport patents and others. The same is true of the Larkin patent. You will find in every one of the patents the admittedly—we have admitted these things—old patents of the Potter combination. If they were not there, the defendants would not bother to read them. There is a coil in one, certainly, a cold wall in another, a compressor in a third, and so on, but is that any clear and convincing evidence that other inventors anticipated the Potter and Bronaugh combination, invention combination of old elements, a combination of what is new, no single old element, and that is true of almost all patents in the United States. They are all combinations of things that were known before. We do not think that is the answer, and we trust you will not find it is.

You will notice that so far I have limited my remarks to the attack upon the validity of the re-issue patent in suit, since this is undoubtedly the first question which you will be asked to consider; namely, is the patent valid. We want you to consider the evidence in this order and in doing so we

suggest that you remember the one significant question which was answered by Mr. Muffly on cross-examination, that the Anderson patent was selected by him from his collection, [23] or by somebody with his approval, as the closest prior art, and dismiss the rest of the confusing testimony concerning the other patents, most of which have been considered in the past by the expert examiners of the United States Patent Office.

Also, in connection with the question of validity, we come again to a question about which there is confusing and unconvincing testimony, not the clear and convincing testimony required to overcome the presumption of validity of the patent. This has to do with the Larkin patent. The defendants have gone to great effort to try to plant in your minds that the mere substitution of a finned coil for a plain coil of the Anderson patent was all that Bronaugh and Potter did to solve this problem that had long plagued the refrigeration industry. [24]

We are certain that you see through this muddying of the waters and realize that it is the giving of the new and useful household tool of the modern dual-temp refrigerator to the housewife which Potter and Bronaugh first achieved. We have admitted from the very first of this litigation four years ago that all of the elements including the Larkin coil are old—and Mr. Bade, the service man, testified that he put a Larkin coil on the first of the experimental models. Potter and Bronaugh saw the need for and contrived the entire combination which produced an operative unitary structure in which all

elements co-act with each other; a single compressor operates to produce the desired results of moist cold humid atmosphere for preserving lettuce and the like in one compartment and for freezing meats and vegetables in another compartment.

What has Larkin got to do with this? The confusing thing which defendants have thrown into the picture and which we are sure the Court will straighten out for you in the instructions is in regard to the dates of the Larkin patent and others thrown against the patent in suit by these defendants. Remember and pay attention carefully to the Court's instructions as to when a patent becomes a part of the prior art.

Let us take the Anderson patent and examine it. [25] Certainly that was truly prior art. That is 1922 and applied for in 1918. But you have seen how the defendants' refrigerators depend upon the transfer of heat from the compartment liner to the tube which carries the expanding refrigerant through "permagum," which is defined in their own service manuals and in the Morton patent as being a mastic substance which is loaded with aluminum filings or the like so that it makes a good heat-conducting medium. In other words, it is just the same as soldering or brazing the coils together. That is the sticky stuff that we are all afraid to get on our clothes.

In Anderson there are pipes running around the inside of the upper compartment, which is just exactly like the old cold storage house which had been in existence since the turn of the century.

I really hesitate to move this to show you the old icebox. You heard Mr. Parker state that there was no mention in the Anderson patent of any control of humidity; no mention of moist cold atmosphere and, in fact, no teaching of the true problem of solving the concept of the combination of Bronaugh and Potter. Certainly, just as in the Davenport patent and others, there is a compressor or liquefying unit and there is an expansion valve. Certainly there are two coils in series, but this is nothing more than two compartments of the old dry-cold refrigerator. [26] What did that do for the housewife in 1922? Nothing which a one-compartment dry-cold refrigerator could not have done.

When you come to consider the Anderson patent, remember this and keep it well in mind: Mr. Muffly, the expert for the defendants, testified that there is a thermostat on the partition between the two doors of the Anderson refrigerator. If you look for it and carefully read the Anderson patent to find any such statement about the location of a thermostat, you will never find it. We have tried. There is mention of a thermostat on the first page. Incidentally, quickly after the mention of the thermostat there is a disclaimer of it as any part of the Anderson invention. Now, that is so much for Mr. Anderson's appreciation and solution of the problem.

Now, you heard Mr. Parker testify on direct examination that Anderson embodied a frosting coil in the upper compartment. Mr. Muffly did not offer any evidence of any test to the contrary. In fact, he

agreed that it did embody a frosting coil. A frosting coil, of course, is a moisture pump; that is what dries out your food. All that Mr. Muffly stated was that in his opinion it was the same as Potter and Bronaugh. And we are certain that you know how to evaluate that testimony when he has testified that he has collected over one hundred thousand patents during the course of his career since 1925 to 1930, almost [27] all relating to refrigeration, and that during that period of years he has been paid to search patents by all of the big refrigeration manufacturers except the two electrical refrigerator manufacturers, Westinghouse and General Electric. He is now on retainer of a number of refrigerator manufacturers and has recently, within the last ten years or last few years, done a number of jobs for Admiral and Amana. Remember that Mr. Muffly is not a patent lawyer, he is not registered to practice in the Patent Office, and that his livelihood since about 1940 has depended, at least in part, on his making searches for the refrigerating manufacturers.

We come now to the question of infringement, and here again all that the defendants can do is to quibble about words, and they do it in a confusing manner by confusing an unrealistic division of the language of the claim and saying "Yes" or "No" to only parts of an element of a claim. Their charts will be clear as a matter of English when you look at them. They say "Yes" or "No" as to whether these parts of elements are in the Admiral box or in the Amana box and as to whether they are in

the Anderson patent or in the Potter and Bro-naugh patent. They have a breakdown on their Exhibits 114-A to -D and some other 114 exhibits, -O to -R, inclusive, of each of the claimed elements of the patent, and they have applied these in a highly confusing manner. They are not even able to be consistent in their [28] own charts. They point to a thermostat in one position on Chart 114-A and the same thermostat in another position on a second chart—the same element for thermostat, 114-C, just as it suits their convenience so as to be able to twist the remainder of the phrase which relates to the thermostat.

Of course Mr. Parker has today brought out these differences, I think, very clearly.

Mr. Cheatham: That number was 114-B.

Mr. Cuninghame: 114-B instead of 114-C.

Now, in order to put the claims and their application to the infringing structure in their proper context you must go to the claims printed in the patent and read each element between the comma preceding that element and the comma succeeding that element. That is just simple ordinary rules of reading in between commas, those sets of elements. They have always been in the patent since it issued in '48. For example, the claim calling for a thermostat responsive to the temperature in the cooling compartment, when you get down to Claims 3 and 4, whereas Claims 1 and 2 call for a thermostat responsive to the temperature in one of the compartments; not a difficult difference. This is clear

enough to the defendants with respect to Claim 2, and their arrow from that element points up to the thermostat at the right-hand side of their chart in 114-A, the thermostat [29] which is supported by the upper freezing compartment. But in their Chart 114-B their arrow from the same element of the claim points to the thermostat which controls the by-pass valve and which is over on the other side of the refrigerator, the left-hand side of their Chart 56 of the Admiral refrigerator.

The answer to all this double talk is that the thermostat in Claims 3 and 4 is stated as being responsive to the temperature in the cooling compartment for controlling the on and off cycle of the single liquefying unit, the motor compressor unit down at the bottom of the cabinet. If, as defendants say with regard to Claim 4, the thermostat in the claim is the one on the left-hand side which controls the by-pass valve, they are deliberately attracting your attention to something else in the hope that you will overlook the thermostat which controls the on and off cycling of the liquefying unit on the right-hand side of the box. You have heard Mr. Parker read from their own service manuals and from the patent to the effect that the thermostat on the freezing compartment controls the on and off cycling of the liquefying unit and that this thermostat reflects the temperature in the lower moist cold compartment since the insulation between the two compartments is thinned out in that area so that heat from the moist cold compartment can

be drawn to the coil which surrounds the upper freezing [30] compartment. Common sense will tell you, in addition to the positive declarations in their service manuals and in the Morton patent, that if it were not for the power supplied to the motor in the heat pump the compressor of the liquefying unit in the bottom of the refrigerator, the heat in the moist cold compartment would stay right there since that space is normally closed by the lower door of the Admiral refrigerator and it would soon become a hot box rather than a means of preserving food in a moist cold atmosphere.

Mr. Parker testified that if the defendants' Exhibit 117-A, the moist cold compartment with its coils and the black goop on the outside, were all alone nothing would happen to the temperature in that box and no heat could be removed or withdrawn, as the patent says, from it by the secondary system on the outside of the box—to the outside of the box—withdrawn to the outside.

He testified that it is only when the two portions of the box, Exhibits 117 and 117-A, which make so much noise, are combined in the manner disclosed in the service manuals and in the Morton Patent 2,586,853, in a refrigerator cabinet that heat can be pumped out of the moist cold compartment and discharged to the air surrounding, the atmosphere, through the medium of the liquefying unit condenser.

I think I will stop reading for just a [31] moment. I ask you to look at it this way: In my simple language heat, of course, flows only from hot

to cold like water flows only from a higher level to a lower level. And in a refrigerator to make it refrigerate you have got to pump the heat up hill out like you have got to pump water out of a well. It's as simple as that. Now, just what does the pumping-out? Not this little secondary here which is wholly closed and has its own separate refrigerant—that is a whirlpool, actually; all goes around, and where does it come out if it were alone? In fact, what makes it work if it were alone? It is really an elaborate fin and a fin is a heat-exchange extension surface. It is a fin for this, the whole primary system. It is as if this had the fins of the Potter coil. Here is your liquefying unit and your condenser that gets rid of the heat in the atmosphere. Here is the refrigerant circuit going up to two coils in the primary circuit and in series with the same refrigerant in both. It goes first to this coil which isn't off by itself. Here are the bolts attaching it very tightly to this heat-transfer plate, secondary transfer plate—to this elaborate fin. It's a wonderful idea. A lot of patents have been issued on it. That is what the Morton patent is on. But that has nothing to do with us. You have improvements; you have patents of twenty-five years. So, here you have a system, the precise Potter system which I am sure [32] you understand. There is just nothing that could be clearer and simpler. It is the same refrigerant through two coils in series working in the same old way to get exactly the

same result with many recent improvements over the twenty-five years.

We now come to the points of absolute disagreement. Mr. Muffly has testified on direct examination that the cooling compartment is the space inside the moist cold compartment liner and that the freezing compartment is the space inside of the freezing compartment lined. I almost hesitate to go into it because we have heard so much about it. We ask you to consider whether an air space alone makes a compartment a refrigerating compartment or makes any kind of a compartment, as far as that goes. The only thing that makes a compartment is the physical structure which surrounds the air space; and I ask you, did you ever see a refrigerating compartment without insulation? The claims define a cooling compartment and a freezing compartment, and we ask you how there could be any such item in either of the infringing refrigerators or any refrigerator unless there were insulations surrounding the liners of the air space to hold out the heat from the outside temperature so that the liquefying unit or the heat pump, or compressor, or whatever you want to call it, can operate to withdraw heat from the compartment. [33]

We come now to another point of plain disagreement. Defendants say that the Admiral thermostat—Amana thermostat which controls the on and off cycling of the unit is outside of the compartment and not physically inside solely because it is shown in the reissue patent. And I emphasize the words “shown to be on the inside of that compartment”

in the patent. The thermostat as you will recall is this little thing up in the corner 31 of the reissue patent shown in the compartment.

Now, the defendants conveniently distract your attention from the fact that the claim of the reissue patent does not say—none of the claims state that the thermostat must be physically inside of any compartment, cooling or freezing. That is just a matter of English. I want you to read it for yourself. The claims state that it should be only a thermostat, and I quote, “responsive to the temperature of one of the compartments.” That is in Claims 1 and 2 and it is the same language in the other claims.

Let us look to see what happens in a refrigerating system. Both parties agree that when the liquid refrigerant expands into the tube of the expander it extracts heat from somewhere. Where does this heat come from? Since the tube of the expander is inside of the insulation, it naturally draws heat from within the compartment. That heat is taken into the expanding refrigerant and raises its temperature. [34] The thermostatic valve which controls the on and off cycling of the liquefying unit in the Admiral refrigerator is right along side of the tube carrying the heat-laden refrigerant. It therefore responds to the temperature of the compartment from which the heat is drawn. That is what the claim says and that is all it means; no more, no less.

And now we come to still another point of disagreement. They say that the expanders called for

in all four claims—the cooling refrigerant expander and the freezing refrigerant expander is only the bare tube in which the expansion of the gas takes place. They neglect all the surface extension of that tube. We say that you must take the entire phrase again between the commas in the claims—these are the words of the claims of the patents and read, and I quote, “a cooling refrigerant expander having heat-conducting surfaces within said cooling compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature about 32 degrees Fahrenheit while withdrawing heat from said compartment.” That is the whole element of the claim. It is long, I know, but not impossible by any means. I think it is rather simple. There is no disagreement between Mr. Parker and Mr. Muffly that the actual temperature within the tube of the expander—that is, tube 25 in Potter—and the tube which conducts the refrigerant across the heat-transfer plate in the Admiral box must be [35] below freezing, or below 32 degrees. The actual surface of just the little tube itself which conducts the expanding gas may largely be or perhaps is always below 32 degrees. However, when you speak of an expander having heat-conducting surfaces, you are talking about the elements which extend the heat-withdrawing ability of the tube beyond the little surface of the tube. In the Bronaugh and Potter reissue patent this is exemplified by the brine tank in the freezing compartment. It has one vertical surface forming one inside wall—that is where the little ice cube sleeves

are and the vertical surface is to the left of it—one inside wall of the frozen food compartment. It also is further exemplified—and I think maybe I should have put this first—by the fins on the coil heat-expansion surfaces in the upper cooling compartment refrigerant expander. Those are closely spaced fins in tight contact, metal to metal, as explained, of course, in the patent and elsewhere; all well-known facts. Finned coils were old.

In these respective compartments these are the surfaces which extract the heat. They are part of the expander or evaporator or coil, whatever you want to call it, and conduct heat to the tube and thence to the expanding refrigerant within the tube. When we come to the infringing structure they say that it is the secondary tube on the outside of the surface which does all the heat extracting from [36] the cooling compartment liner. Why, then, do they feel it necessary to have all this labyrinth of loops of the tube of the primary system on the outside of the primary transfer plate and the coil of the tube on the inside of the secondary transfer plate which I pointed to a little while ago? Why do they instruct in their manuals that you must apply a layer of permagum, the heat-transferring gum, between the plates? Why do they feel it necessary to surround the tube on the liner of the cooling compartment with all this permagum? Why can Morton say in his patent, as he does, that this may be considered a fin? Mr. Morton is the Admiral chief engineer and chief patentee,

and I think the testimony of Mr. Siragusa was to the effect that he knew more about patents than anybody in the Admiral Corporation. Well, he can say it is a fin because the heat may be withdrawn from the compartment through the metal of the liner, through the secondary system, through the permagum between the heat-transfer plates and into the primary system. Otherwise it just wouldn't be a cooling compartment. The same is true of the freezing compartment liner to the outer surface of which the tubes are soldered or fixed thermally, I guess, and painted over. And, anyhow, it is a very close metal-to-metal contact.

And now we come to another point of disagreement. [37]

Mr. Byron: Of disagreement?

Mr. Cuninghame: Disagreement, d-i-s. And, in fact, this is a mere quibble, an effort to confuse this issue. It is with regard to a differential of insulation in the refrigerator. Potter teaches less insulation around the cooling compartment and more insulation around the freezing compartment. Mr. Bohman, the chief engineer—present chief engineer for Admiral, was asked the direct question, “Mr. Bohman, does the insulation of the cooling compartment in that exhibit permit greater heat inflow than does the insulation of the freezing compartment of that exhibit,” close quote. You will recall that I was referring to the Admiral refrigerator on the floor. Mr. Bohman answered the question with a question, and the Court asked him if he was

in a position to answer that question Yes or No. The question was then repeated as follows: "Does the insulation of the cooling compartment in Plaintiff's Exhibit N, the Admiral refrigerator, permit greater heat inflow than does the"—the witness again answered the question with a question. The Court then suggested—I think you will all recall it. It happened a few days ago.

I am getting a little short of time and I think I will skip this section.

Suffice it to say that this morning——

Mr. Byron: Read it. [38]

Mr. Cuninghame: Do you want it read?

Mr. Byron: Yes.

Mr. Cuninghame: Give me some more time if I read it.

Suffice it to say that this morning I heard Mr. Parker come back and tell us all about it on the witness stand and testify flatly—and there is nothing to contradict him—that there is proportional insulation in the Admiral box just as he testified earlier that he was sure there was in the Amana box and that that infringes Claims 3 and 4, which, of course, is all relative, differential or proportional, whatever you want to call it, but it has thicker insulation around the freezer than around the cooling compartment, and I do not want to try Mr. Bohman here.

Now we come to another play on words. The defendants claim that because of the secondary system in the Admiral or in the cooling compartment there is no "single liquefying unit" as specified in the

claims of the Potter patent. We ask you as reasonable ladies and gentlemen to consider the fallacy of this quibble, and to consider the fact that the words "single liquefying unit" are lifted out of context in their charts and diagrams. The phrase must be read in its entirety when construing a claim, and the phrase is "a single liquefying unit associated with said expanders and constructed and arranged to condense refrigerant expanded by heat extracted from both said compartments." That is the element. It is [39] not just the single liquefying unit. That is a much more intelligible description of what we are talking about. It is just a matter of plain English. You have heard the testimony of Mr. Parker, supported by the manuals, Exhibits 4-CC-1 to 4-CC-6, that no heat could be extracted from the compartments without the operation of the motor compressor condenser unit in the bottom of the Admiral refrigerator. The cooling compartment liner with its secondary system may be a very efficient, effective, and undoubtedly patentable system—and it is an addition, you do not have to bother much about it—that equalizes the cooling effects throughout the walls of the liner, but that is not in this case, and it cannot operate by itself. If it were placed in an insulated compartment without any electrical plug-in means, or any means of getting the heat, pumping the heat out of the cooling compartment, the insulated compartment, it simply would not make sense; it would not work. This all sounds quite obvious to me, and I wonder

why I talk about it. When it is placed in good thermal contact with the primary plate, as it always is and always must be, heat flows from the cooling compartment through the secondary system, through the secondary system contact plate, and the primary contact plate, into the refrigerant in the primary system and then is pumped out of the refrigerator by means of the liquefying unit in the bottom of the cabinet. There is absolutely no shadow of [40] doubt that there is a single liquefying unit in the bottom of the Admiral and Amana refrigerators which condenses refrigerant expanded by heat extracted from both compartments.

Now we come to the final point of disagreement and one upon which you may base your evaluation of Mr. Muffly's testimony. He has testified that he finds no humid atmosphere in the Admiral refrigerator—I had better read that again. He has testified that he finds no humid atmosphere in the Admiral refrigerator, and I refer you now particularly to Defendants' Chart 114-O which is the printed chart entitled, "Comparison Between Claim 1, Accused Refrigerators and Prior Anderson Cabinet." Go down that chart to the line marked with a numeral 5, but I think this is pretty detailed, and Mr. Parker has testified this morning and never marked these charts up with circles; but just to show where he disagrees from the opinions stated on the chart, and when you see a circle you know there is a disagreement, and you can think about it and make up your minds without a lot of people telling you about it.

Well, I cannot resist the fact that they certainly do a lot of advertising, and they certainly put a lot of labels on their refrigerators, and in their service manuals a lot of directions if they don't have a humid cold atmosphere in them. I do not think you can say much more than that. [41]

Have I talked an hour and a half, your Honor?

The Court: No, you have not. You have talked an hour and twenty-two minutes.

Mr. Cuningham: Well, I think I will come to a subject that we have not had much testifying about or much talk about. That is the question of damages which will, of course, as the Court will tell you when he gives you his instructions, for you to determine. You will recall that Mr. Parker was asked a hypothetical question last week, I believe, as to his opinion of the value of a reasonable royalty for the manufacture and the sale of refrigerators like those of the two defendants here. His opinion was given as 10 per cent of the amount received by each defendant for each refrigerator complained of in this case. The evidence shows that 164,173 Dual-Temp refrigerators had been sold during the life, five years life, of the reissue patent and that the Admiral Corporation has received for such refrigerators a total of \$41,864,360.87. That is all in Exhibit 4-CC, the Answers to Interrogatories. There is no dispute about these figures. They are admitted figures, and that the Amana Company has during the same period—that is the five-year life of the reissue patent—made and sold 4,232 accused refrigerators of the models specified, FR-9

and FR-9-S, and has received for such refrigerators a total of \$1,012,567.80. That is in the Amana Answer to Interrogatories No. 4-DD, which will be available to you. [42]

So just to sum the whole picture up, that is the verdict we ask you to bring in, 10 per cent of these dollar receipt figures. That would be \$4,186,436 royalties from Admiral and \$101,256 royalties from Amana, totaling \$4,287,692. Do not let this amount stagger you. It is only about six per cent of the retail sales price of these refrigerators to the public, what the man on the street pays. Remember that this is the climax of a 25-year struggle—27-year struggle, or 25, to enforce this patent which has few, if any, equals in the patent history of the United States. Over one million dollars has been invested in this effort over that period of years, and many, many people have contributed to the effort.

Admiral licenses, they have a license that was referred to in the hypothetical question, a license, a rubber gasket on the outside of their door—it is shown on the exhibit here as a little tube—at 2½ per cent for a gasket gadget patent compared to the type of invention you have here in this suit; not just a new model but a new idea in household refrigeration, so do not hesitate to bring in these two verdicts if you feel satisfied on the evidence in this case that the plaintiffs are entitled to that amount as just compensation for the infringement suffered at the hands of both of these defendants.

Thank you for your very courteous attention [43]

which you have given to our troubles here. It has been indeed a pleasure to work before you.

The Court: Ladies and Gentlemen of the jury, we will take a ten-minute recess.

(Recess taken.) [44]

The Court: Mr. Ramsey.

Mr. Ramsey: May it please the Court, Ladies and Gentlemen:

It has been some little time since we started, and you may have forgotten somewhat the statements made in our opening argument. At that time I said I did not know exactly what the plaintiff was claiming, what the issues were, what they were talking about, and, frankly, I am advised a little bit more, but still the issues are not clear as I see it. I think the easiest way to start out is on ground that both sides have in common.

The defendants contend that the Anderson patent is the closest one, and that is because the Anderson patent is held by, or was owned by, the predecessors of these plaintiffs, of Potter, and was put on the box, and it is on the Potter refrigerator, the one over there to the left, and they operated under it from the time Mr. Potter bought it in 1931 until it expired in 1939. It is agreed also that the only difference between Anderson and this patent in suit is something having to do with finned coils. They see, or contend they see, in Figure 2 in a side elevation a square, and they say that is a finned coil and that makes it different from Anderson. We do not see it,

and I think all the argument in the world through experts' eyes, through lawyers' mouths, won't change a thing. You can look at it, and you can consider [45] it, and you are mature people.

This is a fact, and you can also bear in mind that the patent is entirely silent on it. There is no word in there about a finned coil, and this case rises and falls on that. In other words, they say, "We improved Anderson in effect by adding some fins to Anderson's coils." Why? They said because if you put fins on it it does not frost, but you remember the last thing Mr. Parker said. We were very surprised. They asked him whether he looked at it and saw any frost on it on a coil in the Potter refrigerator, and he said, "Yes, there is some ice on the pipe on the first two or three fins." Well, that is exactly our position. And, also, he says there is no such thing as a non-frosting coil, it will frost if you put a certain amount of refrigerant in it, and it will not frost if you put another amount.

This claim I like to think, at least, is something like a description in metes and bounds of a piece of property. I think I used that analogy in opening. An infringement is something like trespass on land of someone's personal property, and it is necessary to define this measurement. You have to have your fence-line around it to advise the people where your land begins and where it ends, and that is the point, and that is required of a patentee. He has to claim it clearly and distinctly, not vaguely, not so that the fence-lines can be shifted around or they can be altered one way or another as suits their will. You

will remember, and I know that there is nothing more boring than hearing lawyers drone over instruments, what is a file wrapper and what do they say, but I know you paid very careful attention and you have paid careful attention to it. I will summarize, and I think you probably have heard those various references that were showed, and if you have any doubt they will be in the jury room with you so that you can see them, and the file wrappers will be there, and you can see what was said with regard to these claims. In other words, you have to be consistent. They mean exactly the same thing when you ask for them as they do when they try to say, "My fence-line is over here someplace." In other words, you get paid for something by teaching something, and you do not get paid for anything more than you teach.

What did they teach? They said they taught a finned coil. Whether they did or not, and let us assume that they did, and it is easier to say that they did, but the next question is, so what? Did you invent something? Well, they said that produces a non-frosting condition. Their own expert says it does not. I say it did not. There is no such thing as non-frosting, but you will possibly remember of them reading the depositions, and it is hard to pick things out of them, but the mechanic that originally devised this, Mr. Bade, said, "We put in enough refrigerant so that the frost line runs about halfway up so that one part frosts and the other part does not." We think that that is absolutely

true. You would not remember the incident, probably, when Mr. Potter was giving his deposition, but he began to laud a certain author, a fellow by the name of Hall, and he said, "Now, Mr. Hall recognized my works. He is one of the best-known men," and he read a little squibble, but he said, "I want to make a little change. Mr. Hall says that my invention is a frost-defrost cycle. Actually, it is a non-frost." Well, there is a great deal of difference, and I do not know whether you got the difference. In other words, a refrigerator works on a cycle, and it is just like in your house, when you turn on your heat and your thermostat comes on it comes on to a certain temperature, then drops down and comes on again. In other words, if you had it right on the dot it would be running all the time or going on and off all the time. So this frost-defrost, they have it cold enough to produce some ice, and it raises up and melts off and comes on and then comes on again, and that is called a frost-defrost.

Now, when Mr. Potter and Mr. Bronaugh in this patent in suit asked for a reissue they said, "This patent is different and this is not for the mere result but this is different, and we will define it very carefully, and this [48] does not mean one of a frost-defrost type. This means non-frosting." And here at the very end his own expert says it must be frost-defrost—certainly.

As far as these defendants' machines are concerned, they have knobs on them, and you do not have to be an expert to know how to run a refrig-

erator. I think most people are familiar with refrigerators and know they have knobs on them, and you can run them as cold or as warm as you want. I think the same thing is true of Moist Cold or any other type of refrigerator. There are knobs on these refrigerators as was shown to you when Mr. Muffly was here, and you can set them up normally where they are nicely in balance, not too much frost, maybe none, and maybe if you get them on the button they might not frost at all. If you get them a little colder, there will be frost then on the up-cycle; there will be frost. If you turn clear down to the bottom, they will frost and accumulate frost, and that usually is not a good condition. In other words, that is a situation that usually you want to avoid; but if you have a lot of things you are going to put into the refrigerator and it is going to be warm you are going to have a little frost and will have to make it go longer to bring it down, and it is adjusted to meet the situation, and many manufacturers provide it.

So the first thing: Is it non-frosting or is it frost-defrost? If it is frost-defrost, we have no lawsuit, for plaintiff explicitly said to the Patent Office, "We disclaim that. That is not infringed. These claims that are secured to us, every single claim, to 4, all had that same limitation in them." Also, another thing, they also have to have some kind of a finned coil because that is their only contribution. That is what they paid or say they paid for this patent; They bought a finned coil in a certain organization.

Of course, it was reorganized, and it is the Anderson organization, but whether they did or whether they did not it is for you folks to say. Possibly you remember.

As I said when we started, there was going to be a lot of complications; there will be a lot of things, a lot of technical things that sound difficult, but always in every case it develops to simple things such, for example, as the claims that that coil has to be within a compartment. We have experts and lawyers and everything—you know what it says; you know what a compartment is, and you can see the picture, and you can see what the number is, and you know. You either think it is inside the liner or outside the liner. You know what a compartment is. A compartment is a bounded space, and in this Potter-Bronaugh it shows—I do not have it here, but you will see it has a metal liner around it. In the Admiral and in the Gibson, which is a cold-wall type, and it is conceded they are different types, it is not in the space at all; it is around the back of it. They have not discussed why they want to have blank walls—that is, unobstructed walls—in the inside of the cooling compartment. You housewives particularly would know that a blank, bare surface, you can keep it cleaner, and you want things kept clean, and I suppose that that is why the housewife and the refrigerator owner wants them. At least, the manufacturer tries to supply what people want.

Just very, very briefly, you have to state an improvement in something. It has to spring from

something. It has to have some base of what we call prior art in our particular jargon, and that is the state of the art that exists when a person enters it. Now, you will remember that, and we are very fortunate to have Glenn Muffly here, one of the pioneers in the refrigeration art, and he testified to what the art looked like in 1925 when he came into it and said that there were cabinets, double cases, two temperatures, two humidities, and then named the manufacturers and said they were old and well-known in that art, and he was impressed by that and thought that probably the public would like to have that kind of a refrigerator and was working for one of the early refrigerator manufacturers, and so he built three or four of them, but the market was not ready for that, and even the plaintiff's witnesses, the G.E. men, you will remember their testimony said, "We didn't do it because the [51] public would not buy it, too expensive, so we have had to build refrigerators that are within the public pocketbook." And, as counsel for plaintiff has reminded you, there were some pretty lean days in the '30's, and there were not very many mechanical refrigerators in those days. The buying public is the one to be served. You can't say that you ought to buy a lot of expensive things if we do not have the money to do it, and, seemingly, the people that employed Mr. Muffly said, "Let's get the price down first." The war came along, and I suppose the buying public is used to spending more money for refrigerators, and maybe that is the reason that they

liked this type of refrigerator and like the refrigerators generally. I am kind of off the track, but I mean that is just the picture. [52]

Now, concerning the Patent Office, the Examiner, for some reason, didn't find that Larkin patent and it wasn't cited against the application here. And there is no question about it. He testified we weren't there but they said—Potter and Bronaugh said what we did was to buy a Larkin patent and put it in the box and we bought it for its purposes, put it in the box and put it that way. So we bring in the Larkin patent which teaches all that.

Now, that certainly couldn't be an invention or he couldn't be paid twice. They take a Larkin coil and use it where it was intended to be put in. But the Examiner didn't find it. Then, also, during that time there was before the Patent Office the Gibson patent which is the one under which these defendants have bought and paid for and operated their license from Frigidaire.

You remember the testimony of Mr. Morton, the Chief Engineer of Admiral, and he said that when we started in 1944, 1945, steel was in short supply and we couldn't supply civilian goods and I was trying to build a two-temperature refrigerator and I worked up the best design I could, and after it had—we say “jell” if the design is complete—we had a thorough search made of all patent records. We tried to find out whether we were going to cross anybody's fence line. So people advised us that we might be in that man's property and this man's property and that man's [53] property, so we

took a license and paid licenses to everybody that we thought might be involved. And the licenses were granted to them.

Now, one of these licenses, I say, was one to Gibson, and that is the one under which they operate. I think that patent has expired. Yes. That has expired. But during the life of the patent they did pay rent for it, the agreed rent. That was in the Patent Office before Potter was. And, naturally, the Patent Office can't grant a monopoly to two different people for one idea, and so if they think that anything is close they declare what is called an interference. Well, that is just a contest between two people to see which is earlier.

But, before they can have such a contest, they have to be asking for about the same thing, and it is very persuasive. Now the cold-wall type of refrigerator is a different type than a coil in the compartment, and the Patent Office didn't declare interference. There was no contest in there.

You can either spell it one of two ways: Either the Patent Office made a mistake or there was no conflict in fact. I think I am inclined to think the latter, and that is particularly true because later in 1936 on this second patent of Potter he put in an application and he was arguing himself about the difference between finned coils and cold [54] wall, and he was arguing about whether his coil is within the compartment or outside of it and he was then met with the Gibson patent. He says, "Well, obviously it isn't. Obviously around Gibson's, which is a cold wall, the expander is on the outside of it."

The Court will probably instruct you as to the meaning of "patent" and "patent claims" and will instruct you that they have to give reasonable intendment to the language of a document. That isn't peculiar to patents. That is true of any contract or of any agreement. And no one forces a man to write certain things into his claim. He does it voluntarily and he is, what we say in law, the scrivener of it. He is bound by what he writes. It is up to him to particularly point out and he does it, and the Examiner says "No" or "Yes," or sometimes by agreement he says, "Well, if you will change this a little bit, I will change that and I will agree to it."

Now, all we have to go on here in this case is a definition of what the plans are. I imagine this must be awfully boring, this question of inside and outside, and I am going to just be very brief and I am not going to make a speech and I am not going to approach anywhere near to it and bore you. Referring to Mr. Muffly—and we will go back to the first one, what we are talking about—we have all agreed Claim 2 is a broad claim and if—that is the one that is controlling, underlying all of the other three claims. This No. 5 that you have heard so much about, this cooling refrigerant expander having heat-conducting surfaces within said cooling compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature above 32° F. while withdrawing heat from the compartment whereby air in the cooling compartment is cooled thereby to a temperature of above 32° F. and is maintained at a humidity whose relative

value is at least 100 per cent at 32° is just a finned coil. I mean that is supposed to define it. But Mr. Parker says that the only thing that can mean in Potter is a finned coil.

Now, the important words in there are this word "within," and, as I say, you have to make up your own mind, is it within that compartment 14 that Potter says and argues for? Later, you remember, in his second case he is talking about "within." We will leave that one. I think that has been beaten to death, but it is important.

The next one is—I must preface this just a little bit. A patent element has to be defined in terms of structure. You remember that you have been hearing structure, functional result. He can't do it by function, you can't do it by results; you have to do it by structure, particularly if it is a point that we call the sole point of novelty or a point of novelty. Now, it says "constructed"—"that is constructed and arranged to maintain its heat-conducting surface above 32° F.," an element maintained always above. And that is the definition he put on it when he was asking for it particularly in the reissue. So I suppose it goes without saying that if it gets to 32 or below it isn't maintained there and he doesn't—Parker said—the last thing—it frosts. We say ours frosts. You can change it around but even one of the models which he has in the manual, that is the way it is designed, frosts on normal operation. Some of them may like to have it nicely bald, and you remember the manual says that it is kind of hard to do at the factory. You have to vary it for

altitude and load and all that sort of thing. That is a question, that "maintain." It has some inherent thing in the cooling coil, some inherent thing that prevents it from going under 32°. Both sides say no, it hasn't anything like that. So, Mr. Muffly says, "No. No; that is a function of the thermostat." You set the thermostat. If you want it a little colder, you set it down; if you want it a little warmer, you set it up. But you don't change the cooling coil any. That just stays there. As a matter of fact, you can take a cooling coil and you could make a—probably you could make a steam pipe out of it or you could make any kind of a pipe out of it. You could put it down in the freezing compartment. That is just an inanimate tube. There is nothing about that that is constructed and arranged unless there is something mysterious about a finned coil or something. So, but, the maintenance has nothing to do with it because they said a "finned coil" cannot be maintained. They say it is just the way you operate it.

Now, you get on 6 which we don't put any great stress on. That is the cooling compartment. They say that is a function of the thermostat, too; that it will freeze if you turn enough refrigerant in and it will not freeze if you don't. It is almost that simple. So we say, "Well, we don't have any function of maintaining an arrangement constructed." You could run it so it wouldn't frost. You could freeze it or take it to zero or 10 or 20 above or below; it makes no difference as far as the coil is concerned.

Now, this 8, 9 and 10 are something that you will remember. Maybe you will remember. As I say, it is dull. While they are wriggling around trying to get claims in and they are met first by Anderson, and Anderson says—and the Examiner says about Anderson, “Why, he has got everything that you have shown.” And then he says, “No. He doesn’t have a non-frosting coil.” Well, he does. Why doesn’t he? Well, because he has to put some liquid refrigerant in it. It won’t get cold enough. But they didn’t tell the Examiner at that point that they do, too. But they left that impression with the Examiner that they didn’t. They didn’t say [58] truthfully, “We don’t.” But, he says, “Why, ours is different from theirs because they have to put liquid in it.” But they are all agreed that so do they. And you can’t do it without putting part of that refrigerant in in liquid.

Then they got by that hurdle. Then, the next ones they got by or were faced with were the ones—the Davenport ones where the refrigerant is partly a volatile refrigerant and partly is air, and that provided one of these combinations that showed in these combination freezers-refrigerators, controls for both, and they said, “Well, a moist cold climate, humid climate,” and everything. “Look! That fellow shows it, too. How did you differentiate with his?” “Well, we use only volatile refrigerant, and that is much simpler.” So that is the meaning of this word “sole.”

And then they got over to this group of Lundgaard, Curtis and Barnes, and they—we have only

asked you to consider the Lundgaard one. He says, "But, look! They have got a non-frosting moist cold climate in that combination. They have got a freezer and a refrigerator and a non-frost moist cold just like you have." "Well, yes, they have, but they use—they have a cold plate down in the refrigerator half, and they blow air over that and they have to use this draft of air which goes up and down this stack and at 34° Fahrenheit."

So, it is true they have got a non-frost, but they do it differently, and we have only one that runs between 1 and [59] 2. They obtained those claims and those representations with those differentiating qualities. But we don't use them, and they may be all right.

I don't know anybody that does use them, but as far as people that I represent they feel that they have to have a primary, secondary; they have to have a cold wall with all of its advantages, and so they do. So, as far as infringement is concerned there isn't any. As far as validity is concerned we don't think the man invented anything. He didn't disclose anything new. He didn't do a thing over his own patent that he bought from Anderson and operated under for a long while.

Now, the reason I say that is that when they started out you will remember those claims. He thought that they invented a combination freezer and refrigerator and put in claims for it. The Examiner immediately said, "No. That is old." So, then, they asked him for reconsideration. "No.

There is another one." Then we later found out there are some 20-odd of that type. That is on the back of a patent, the reissue patent, and you will have that with you. Look at them. Look at any of them, if you want to, if you have any questions. I think, however, that you do understand.

Then, when those claims were rejected and the man's attorney said to them, "I don't think we have got anything," he got discharged for that and for another reason [60] that appears in the record.

Now, that is the reason, I think, that when they started out they didn't have this thing in mind at all. It isn't reflected into the specifications or reflected by the claims.

The first claim that ever was put in was 1932, and this was filed in January or February of 1931. So I think this is something they couldn't get what they wanted, so now they are trying to find out something that they can wangle out of the rest. It is for that reason—and you possibly have forgotten—it is for that reason I said to you at the start they took one position to get a patent and it is a very narrow patent and of doubtful validity. We don't think it is valid at all, but it is very narrow.

Then, they get it and they try to say it is very broad. Then, they have got to go back in again, say it is very narrow. They say these little things don't cover this and don't cover this, and now they are out again, and it is of world-shaking importance. You can't do it. You have got to be consistent.

Whatever they have, if it is valid, more power to them. If it isn't valid, an invalid patent should be taken off the books and shouldn't be put out as hurdles against anybody. But, as far as we are concerned, we don't use it. We use an entirely different system. We entered the field—both factories entered the field, looked through the patents, [61] paid their interests to people, paid a license fee, asked for them, got them, and are operating on them, and it is this one and it is agreed that this is the same. That is the one that we are operating on and not the Potter; nothing close to it. By their own claims we are not close to it. That is our position. [62]

Plaintiff's Rebuttal Argument

Mr. Cuningham: Mr. Ramsey, as I understood him, sort of hung his hat on the theory that the defendant had gone down one road, the cold-wall road, and at that time the Potter patent had gone another road, the finned-coil road. That is what I think he tried to say. And he said, therefore, no infringement existed. He says, well, maybe it is valid, but it is pretty narrow and ought to be limited to that finned-coil road. That is what I got out of his talk.

Well, you may wonder why we failed to cross-examine the only witness that took the stand for the defendant. We did, really. The reason was that our theories completely missed. Mr. Muffly did, as we understood it, meet the position we have maintained in this court for two or three weeks on infringement. In fact, he did even better for us than

we expected. He said on the record—and I will quote him from the transcript, Page 1303—I quote Mr. Muffly:

“You can do anything with the sheetmetal evaporators like Davenport that you can do with a coil.”

Those are his very words.

Now, of course, Potter isn't limited; we all know that. That is just a finned coil. The testimony is that he could have used a brine tank. In fact, the testimony is, from Mr. Bronaugh, as I recall it, that they did try out a brine tank in the cooling compartment and later settled on the finned coil as the cheaper and handier and easier thing to get. But the whole point is it is an extended surface and anyone knows the relationship between the surface temperature of a large area and a smaller area. There is that difference, you see, and Mr. Muffly was not mentioning a very deep fact but certainly an obvious one, that you can do anything with a sheet-metal evaporator that you can with a coil.

Mr. Muffly even did better than that. Transcript Page 1277: He pointed out that—well, you remember that Mr. Byron and I had a little tiff about the little finned coil showing in the patent whether it was in Figure 1 or Figure 2, and so on. Mr. Muffly said in the record at Page 1277:

“This coil leads into a rectangle which might be a brine tank,”

and it might. We don't think it is. We think it is a diagrammatic showing of an extended surface coil; that is all there is to it. Of course, a sheetmetal expander or Mr. Gibson's aligner on these things here

(indicating), they are all expanded surface coils working from a little round expander-evaporator, whatever you want to call it. So we knew, of course, that that was the distinction that was [64] attempted here. There seemed to be no reason to examine Mr. Muffy on that and, of course, the fact that there is no word about a finned coil and the limitation about a finned coil expressly in the patent is true. It would have been an improper definition of the invention to limit it to a finned coil.

These are all, in a sense, finned coils, expanded surfaces, and they work in the same way so that your heat-transfer surfaces don't have to get below 32 degrees where they touch the air that comes out of the food and dehydrate it. That is one of the reasons.

Now, there may be some confusion in your minds—it would be natural, I think, if there were—as to why Potter bought the Anderson patent in 1922—why he bought it in '31. Well, it shows and claims the series expanders from the one liquefying unit. It doesn't claim anything about finned coils or disclose them or teach them and it lay fallow for, oh, ten or eleven years before Potter discovered it in a patent search in connection with his own application and felt that here was a man who taught something that he was using. It wasn't something he invented, but that patent was unexpired in '31. It didn't expire until '39, and it had eight more years of life. Well, being a pretty straight-forward fellow, he bought and paid for the patent because he

felt that he had to use it in order to use his invention. Now, the Judge has told you that a patent is the right to exclude others from using your idea and not the right to use your idea yourself. It is just what made Potter buy the Anderson patent. There may be a prior patent that prevents you using your own idea, but the prior patentee can't use your idea. Anderson couldn't have used Potter's invention had he wanted to, even though Anderson was prior, because they weren't one and the same thing. In fact, Anderson made not even any attempt at humidity control. He didn't try to solve the problem. Of course, he didn't do it. But, nevertheless, Potter, who did solve this problem of dehydration and the other problems needed to use the unexpired Anderson patent. That is the way our patent system works, and if you think about it it couldn't work any other way. You would be all mixed up if it did. It is a limited monopoly to exclude others from using your idea. It isn't a limited monopoly to you yourself to use your idea if in doing so you conflict with somebody else.

Mr. Potter being a pretty straightforward businessman decided that he would pay for this Anderson patent because he had to use it for eight years remaining of its life when he wanted to bring out his. He didn't want to fight about it. He was pretty naive, I guess, in this vale of tears when you look at his experience and what he did for his headstart in the business. Why other people don't realize the work and the labor and the property and the value to the [66] public of patents like Mr. Potter did

when he bought the Anderson patent, I frequently wonder. And these defendants have made the figures I have quoted to you utilizing this invention. The defense in this case of non-infringement is ridiculous. Thank you.

The Court: We have finished sooner than we anticipated, but I am not going to instruct you tonight. I am going to instruct you tomorrow morning, because if I instructed you tonight, in the first place I couldn't do it, in the second place I want you to listen carefully to me and what I have to say because I have got the final say. Even if you didn't understand some of the things that these attorneys have told you, I am going to put it in simple language for you and tell you exactly what you have to decide and the issues you are going to have to be concerned with and what the law is. I am going to try to make it as explicit and clear as is possible.

Juror No. 2: Your Honor, is that the time when we are going to be permitted to make notes?

The Court: Yes, if you want to. I will tell you, though, I don't think you are going to have to make notes. I should have told you that you could make notes during this argument, but I forgot about it. It may very well be that I will have a transcript run off of my remarks and then if you get into any difficulty we will let you see what I did say. That might [67] help you. I will tell you now that you haven't heard one of the most important parts of the case and that is coming tomorrow, so please

don't make up your minds as to how the case should be decided until after you have heard the instructions.

You are now excused until 9:30 tomorrow morning.

(Whereupon the jury was excused.)

The Court: I want to announce now that all persons who have been subpoenaed here on behalf of either side are now excused from further attendance at the trial if there are any such persons. Secondly, I want to say that tomorrow I will begin to instruct about 9:30 in the morning. Under the rules that we have here no one leaves or enters the room during the giving of the instructions, so unless you are here at 9:30 you are not going to get in. Counsel, of course, would have a right to come in, and we will wait for them. I work on these instructions, I prepare them, and I don't want any distractions; and, therefore, if you want to come here, you are perfectly welcome to come, but we don't want any moving around. Just sit in your seat and stay there. There will be only one movement, and that is at the end of one hour there will be a change of reporters; that is the only change, and that is the only break that there is going to be. Then as soon as the reporter comes in we will stop and the new reporter will take his place, and then we will start in again. But I don't want any interruptions other than that. I am going to continue to work with Mr. Kolisch

and Mr. Cheatham on the interrogatories and some of the final instructions. The instructions will take approximately two hours.

Recess until tomorrow morning at 9:30.

(Whereupon proceedings herein were adjourned to December 1, 1955, at 9:30 a.m.)

United States District Court
District of Oregon

Civil No. 6016

MOIST COLD REFRIGERATOR CO., INC., an
Oregon Corporation,

Plaintiff,

vs.

LOU JOHNSON CO., INC., an Oregon Corporation,
and MEIER & FRANK COMPANY,
INC., an Oregon Corporation,

Defendants.

and

ADMIRAL CORPORATION, a Delaware Corporation,
and AMANA REFRIGERATION, INC.,
an Iowa Corporation,

Defendants-Interveners.

COURT'S INSTRUCTIONS TO THE JURY

The Court: Ladies and gentlemen of the jury:

At the commencement of this trial and at various times throughout the trial, I urged you to listen carefully to the evidence introduced by the respective parties and not to make up your minds as to how this case should be decided until you heard all the evidence, the arguments of counsel, and the instructions of the Court.

In spite of the length of this trial and the numerous recesses, you have shown a great deal of patience and have paid careful attention to the testimony of the witnesses and the arguments of counsel. At this time, I desire to express to you my sincere appreciation for the way in which you have performed your duties. It is now my privilege and my duty to instruct you as to the law which governs this case, and I hope that you will pay as close attention to my instructions as you have to the evidence and the arguments of counsel.

This case presents a number of issues, and it is the duty of the Court to instruct you fully on each of such issues. Some of them may be covered by only one instruction while others may require several instructions. You must not allow yourself to be influenced as to any question or issue by the number of instructions given you upon such question or issue. The Court does not intend to stress the relative importance of any question of fact or law either by the [1484] number of instructions given you upon a particular proposition or by the order in which the instructions are given.

It is your duty as jurors to follow the law as stated in these instructions and to apply the law so given to the facts before you. You are not to single out one instruction alone as stating the law, but you must consider the instructions as a whole. Regardless of any opinion you might have as to what the law ought to be, it would be a violation of your duty to base a verdict upon any other view of the law than that set forth in my instructions.

You have heard the arguments of the attorneys. As they themselves have told you, what an attorney says, either during the course of a trial or in his argument to you or to me is not evidence. The attorney is not under oath and his duty is a partisan one to his client. The purpose of an argument to a jury is to suggest inferences and deductions which the particular attorney believes can be drawn from the evidence. While you may follow the inferences and deductions that are made to you by a particular attorney, if they seem reasonable and logical to you, you are not bound to do so.

It is the duty of the Court to admonish an attorney who, out of zeal for his cause, does something which is not in keeping with the rules of evidence or procedure. Do not draw any inference against the side to whom an admonition of the Court may have been addressed during the trial of this case. In order to determine the issues and the interrogatories that will be propounded to you, it is immaterial whether you like or dislike one or more of the attorneys who have appeared in this case or

the manner in which they or any of them presented evidence or argued the facts to you or to the Court.

You are the sole and exclusive judges of the facts in the case and you are bound only by the testimony and the other evidence which is before you. You are to decide the questions that are to be propounded to you solely upon the basis of the evidence that has been introduced at this trial, that is, the testimony and exhibits which have been admitted in evidence, without any feeling of sympathy, bias or prejudice for or against either the plaintiff or the defendant. If you have acquired, or believe you have acquired, any knowledge or information concerning any issue involved in this case from any source, other than the evidence, you are not to convey such information to any other juror and you are not to consider it yourself.

In the trial of a case, the function of the judge, or as we say, "the Court," is different from that of the jury. It is the function of the Court to lay down the rules of law that govern in the trial and preside therein and to see that the trial is free from error. The Court must necessarily rule on questions of law throughout the case. These rulings on questions of law have, so far as you are concerned, no relation to the questions of fact. It is your duty to ignore any evidence that is ruled out and, when a witness is not permitted to answer a question propounded by an attorney because of an objection interposed by an attorney for the other side, you are not to speculate on what might have been

proved if the ruling had been otherwise and the witness had been permitted to testify.

A judge of the Federal Court has the power to sum up the evidence and to suggest conclusions thereon, that is, he has the right to comment upon the facts of the case and he may also comment on the credibility of witnesses. In this case, because of the long recesses, numerous depositions, and the highly technical character of some of the evidence, I shall avail myself of that privilege primarily for the purpose of clarifying the issues.

Ladies and gentlemen, I shall not comment on the evidence in this case. I have that privilege, but I am not going to do it because, under the law, you are the sole and exclusive judges of the facts. I think the case has been fully and fairly tried, and I am going to leave the questions of the credibility of witnesses and the facts solely up to you.

Insofar as I lay down for you rules of law, you are required to follow them because it is the exclusive [1487] province of a judge to instruct you as to the law that is applicable to the case, and it would be a violation of your sworn duty to base a verdict upon any other view of the law than that given in my instructions.

I have stated that I do not propose to comment on the evidence. Therefore, if any of you know what my attitude is towards the questions of fact that will be submitted to you, you may disregard my opinion for, as I have stated, under the law you are the sole and exclusive judges of the facts and the credibility of all witnesses.

During the course of the trial, I occasionally asked questions of a witness in order to bring out facts not then fully covered in the testimony. Do not assume that I hold any opinion on the matters to which my questions related.

In a civil case such as this, the burden of proving an allegation by a preponderance of the evidence is laid upon the party making the claim. In this case the plaintiff has the burden of proving certain issues and the defendant has the burden of proving certain other issues and from time to time, in the discussion of the issues involved in this case, I will tell you upon whom the burden of proof rests.

Preponderance of the evidence does not mean the greater number of witnesses but the greater weight and the convincing character of the evidence that is introduced. In other words, you are not bound to decide in conformity with the declarations of any number of witnesses which do not produce conviction in your mind, as against the lesser number or against a presumption of law or evidence which satisfies your mind. The direct testimony of any witness to whom you give full credit and belief is sufficient to establish any issue in the case. Every witness is presumed to speak the truth. This presumption, however, may be overcome by the manner in which he testifies, the character of his testimony, or by evidence affecting his character or motives or by contradictory evidence. If you find that a witness has testified falsely in any one material part of his testimony, you should look with distrust upon the other evidence given by such witness and

if you find that any witness has wilfully testified falsely, it will be your duty to disregard entirely all evidence given by such witness unless it is corroborated by other evidence which you do believe. The testimony of a witness is said to be corroborated when it is shown to correspond with the testimony of some other witness or comport with facts otherwise known or established by the evidence.

The rules of evidence ordinarily do not permit a witness to testify as to his opinions or conclusions. An exception to this rule exists in the case of an expert witness. A witness who, by education, study and experience, has become an expert in any art, science or profession, may state his opinion in a matter in which he is versed and which is material to the case and he may also state the reasons for such opinion. You should consider each expert opinion received in evidence in this case and give it such weight as you think it deserves. Such opinion will be judged upon the same basis as you would judge the opinions of lay persons who have testified, except that you are entitled to give it more weight if you decide that, because of the experience and training of the expert, his opinion is more likely to be accurate than that of an untrained person. You may reject the opinion of an expert witness entirely if you think the reasons given in support of it are unsound.

I shall now outline the contentions of the parties.

Plaintiff, Moist Cold Refrigerator Company, alleges that prior to the commencement of this action,

all of the rights of the patentees in the original and the reissue Bronaugh and Potter patents were assigned to it, and that it is the sole owner of all patent rights involved in this litigation.

As such owner, plaintiff filed this action for patent infringement against Lou Johnson Company, a wholesale distributor of Admiral and Amana refrigerators, and against Meier & Frank Company, a retail distributor of these two refrigerators. Shortly after the commencement of this action, [1490] both the Admiral Corporation and Amana Refrigeration Company voluntarily became parties to this action and are defending the case. Therefore, any judgment that may be rendered in this case will be for or against them. Neither the Lou Johnson Company nor Meier & Frank has any interest in this case.

The Admiral Company and Amana Company, in their answers, denied the allegations that the Moist Cold Refrigerator Company was the sole owner of all the patent rights involved in this litigation. This then will be your first inquiry. You will recall the testimony of Mr. Potter with reference to the various corporations that at one time or another have had interests in these patents, and you will also recall his testimony concerning the number of people who are making monthly payments to Mr. Potter in connection with this litigation, and who Mr. Potter contends have no interest in the plaintiff corporation or in the reissue patent in suit.

On the issue of title, plaintiff has the burden of

proof to establish by a preponderance of the evidence that it owns all of the patent rights involved in this litigation. I leave it to you to determine, as a matter of fact, whether plaintiff has proved this. Of course, if you find that plaintiff has failed to prove it, you will find in favor of the defendants. [1491]

The Admiral Company and the Amana Company contend that the patent in suit, namely, Bronaugh and Potter Reissue Patent No. 23,058, is invalid and void. They further contend that none of their refrigerators infringe the claims of such reissue patent event if the reissue patent is valid.

A patent is a grant by the United States of the right to exclude all others from the manufacture, sale and use of a particular invention for a period of 17 years in exchange for the disclosure of that invention to the public.

The original Bronaugh & Potter Patent, No. 2,056,165, was issued October 6, 1936, to Thomas I. Potter. It covered a combination of known refrigeration elements and principles to create separate refrigeration compartments for foods desired merely to be cooled and those desired to be frozen, and to eliminate the necessity of defrosting. The sole claim was to the combination and not to a single element therein, all of which elements were well known.

As I explained to you at the beginning of the trial, this patent was surrendered because in an action on the original patent, the Court of Appeals for the Seventh Circuit held that the patent was invalid. By reason of such holding, the owners of

the patent went back to the Patent Office, and by making changes in the claims and by surrendering the old patent, secured Reissue Patent No. 23,058 on December 14, 1948, and it is this reissue patent which is [1492] the basis of this action. A reissue patent is identical to an original patent except that it is issued when the original patent was defective or contained certain errors and the Patent Office finds that the defects or errors have been corrected.

Both the original patent and the reissue patent were granted under an Act of Congress which provided for the issue of a patent to any person who has invented or discovered any new and useful art or machine or any new and useful improvements thereof not known or used by others in this country before his invention or discovery thereof, and not in public use or sale or not patented or described in any printed publication before his invention or discovery for more than two years prior to his application. This is the basic law governing the granting of patents, and I shall now take up the pertinent provisions of this law in relation to the contentions of the parties and the evidence adduced at the trial in support of such contentions.

In order to obtain a patent, a person must show, first, that he invented or discovered a new and useful machine or a new and useful improvement to such machine. The granting of a patent by the United States Patent Office carries with it the presumption that the patent is valid, and, therefore, when the Patent Office issued the original patent

and likewise when it issued the reissue patent, the patents [1493] themselves are prima facie evidence of both novelty and invention. This is not a conclusive presumption, but merely a rebuttable one, and you will recall that the Court of Appeals, in spite of this presumption, found that the original Bronaugh and Potter patent was invalid. In other words, it is a rule of evidence which casts the burden of proving invalidity upon the defendants by clear and convincing evidence.

The question of whether a patent discloses an invention divides itself into two considerations:

(First) Was the machine anticipated? In other words, was the same thing disclosed in an earlier patent, or had the same thing been publicly known or done? And,

(Second) If this same thing was not patented or described or known before, were there other machines so nearly like the one described in the claims of the patent that it needed no inventive ability to make the machine which the patent claims to describe, but would a person skilled in the art, in this case the art of refrigeration, naturally have made such changes or improvements?

Stated differently, invention is to be distinguished from the workmanship of a good mechanic or engineer skilled in the art of refrigeration. [1494] The exercise of mechanical skill, which does not amount to invention, is embraced in such common expressions as "expected skill of the calling" or

the "skill of the art." With the rapid advance of science and technology, the level of expected skill in many fields is constantly rising. Knowledge of the prior art is not limited to the knowledge of the public generally nor to those carrying on routine work in a complex and technical field, but embraces the knowledge of experts—trained engineers—who were working in the field of refrigeration, at the time of the alleged Potter and Bronaugh [1495] invention.

A person who conceives some machine and applies for a patent thereon is conclusively presumed to know all the same or similar machines which were disclosed in patents and which were publicly known or used by anyone else at a date more than two years prior to the date of his application whether, as a matter of fact, he actually knew of them or not. What was previously patented or described or publicly known is collectively spoken of as "the prior art" or "the prior state of the art."

Such prior patent must disclose the invention in a complete enough form to accomplish the same result accomplished by the claimed invention in substantially the same way. It is not sufficient to constitute an anticipation that the device relied upon might, by modification, be made to accomplish the function performed by the patent in question in the same way if it were not designed or adapted, nor actually used, for the performance of such function.

However, all of the elements or parts of a claim need not be found in a single prior art reference

in order to show lack of patentable invention. It is proper to look to the entire prior art, and the mere fact that some of the elements of a combination claim are found in one prior art patent and other elements are found in a different prior art patent does not render the teaching of either or both of such prior art patents ineffective as a guide for ascertaining novelty. [1496] There still remains the all-important question as to whether the new combination of such old elements amounts to patentable invention or whether it might reasonably be expected of a mechanic or a person skilled in the art.

Each element in an invention need not be new. Patentable invention may exist in combining old elements in a new way so as to produce a new result or an old result in a new or better way. But the fact that the new combination accomplishes a better result does not alone evidence invention. The combination of the selected elements may be an improvement upon anything the art contains, but if in combining them no novel idea is developed, there is no patentable invention, no matter how great the improvement may be.

Likewise, in order for a combination patent to be valid, the old elements which make up the machine must perform an additional and different function in combination than they perform out of it. In other words, the patented machine must exceed the sum of its parts, and there must be in such new or improved result the element of discovery—and the combination must produce some new or different function—one that has unusual or

surprising consequences. In this case the plaintiff does not claim that Bronaugh and Potter invented any new element. Every element in each claim is old in the art. These elements are a cabinet, [1497] a cooling compartment, a freezing compartment, thermal insulation, a cooling refrigerant expander, a freezing refrigerant expander, volatile refrigerant, a single liquefying unit, and a thermostat. Each of these elements is old in the art. Likewise, plaintiff does not claim that Bronaugh and Potter were the first to invent a household refrigerator with two or more compartments, one for the freezing of foods and the other for the cooling of foods, or moist cold refrigeration, or a non-frosting cooling compartment. These were also well known in the art at the time that Bronaugh and Potter applied for their original patent or conceived their invention. Plaintiff claims an invention solely on the basis of a combination.

In order to find that the machine described by Bronaugh and Potter constituted an invention, you must find that the elements in the claims were combined in a new combination which produced a result which had never previously been achieved and which was not within the exercise of mechanical skill of good mechanics or engineers skilled in the art of refrigeration. And, as I have previously told you, the total machine must exceed the sum of the parts; something new and surprising must have been achieved. Now, if you find that the patented structure meets this standard, then, of course, you will find invention; but if, on the other hand, you

find by clear and convincing evidence [1498] that this standard has not been met and that the various old elements in a new combination produce no new and surprising result or was within the skill of the art, no invention was present, and, of course, under those circumstances, you would find the patent to be invalid and hold for the defendants.

If an earlier patent discloses substantially the same things as the claims of a patent or that substantially the same thing was already in existence and known and used before one makes a discovery which is subsequently patented, that patent is said to be anticipated and, therefore, invalid. The questions of anticipation of a patent and of lack of invention in the same claim are closely related. They required a consideration of the same facts, and the instructions which I have heretofore given you concerning the burden of proof are equally applicable to both defenses.

In connection with the defense of anticipation, the defendants have cited certain prior art references, including Anderson, Lundgaard, Larkin, Davenport, and others. In connection with this defense, I now desire to lay down certain rules for you.

The presumption of validity and invention does not extend beyond the record before the examiners in the Patent Office. On the other hand, where the file wrapper [1499] discloses a patent was considered by the Patent Office during the prosecution of a claim for a patent and if certain claims were allowed the patentee, there is a presumption that

the Patent Office did find differences between the prior art patent or patents and the patent which is issued, in this case the patent in suit. This presumption, as I have previously stated, is merely a rule of evidence and casts the burden upon the alleged infringer to go forward with the evidence and prove by clear and convincing evidence that the Patent Office was wrong in distinguishing the prior art from the patent issued. Therefore, in this case, the fact that Anderson and Lundgaard and Davenport were considered by the Patent Office carried with it the presumption that the combination of elements in the Bronaugh and Potter patent constituted invention, and if this presumption is to be overcome, the defendants must show by clear and convincing evidence that there were no distinguishable features of a patentable character between Anderson or Lundgaard or Davenport and the patent in suit. With reference to prior art patents which were not considered by the Patent Office, such as Larkin, no such presumption exists.

Although the same evidence is available on the defense of anticipation and on the defense of no invention, the defense of anticipation is the narrower one, and even though a prior art reference may not fully anticipate a [1500] patent, the question is whether a mechanic or an engineer skilled in the refrigeration art, by applying Larkin and other prior art patents, might reasonably have been expected to have achieved the result described in the patented structure.

At the trial plaintiff introduced evidence in support of its contention that the patented invention filled a long-felt want and that it enjoyed commercial success or would have enjoyed commercial success but for manufacturing difficulties beyond the control of the inventors and those who owned the patents. But commercial success without invention will not make patentability. Evidence concerning commercial success is relevant where there is doubt that the patented structure meets the standards which I have laid down for you as to invention, and in such doubtful cases it is one element to be considered in determining whether the patentees actually made an invention. It was for this purpose, and this purpose alone, that I admitted evidence concerning commercial success. However, for commercial success to have any meaning, the success must have been due to the patented features of the device rather than other considerations, such as advertising, promotion, salesmanship, and other factors which are important in determining the success or failure of a product. Also, any commercial success must be public acceptance of the devices described in the patent, and not merely devices in the same general field. [1501]

It is admitted in this case that plaintiff's patent covers something more than merely a household refrigerator with a freezing compartment and a cooling compartment in the same box. This had been shown earlier by Anderson and perhaps others. Now, the law does not require a patentee to use

his patented invention or make, sell, or use the device covered by it. Therefore, even though a device may have been patented and known to those skilled in the art, it may not have been used, manufactured, or sold. Therefore, even though there may have been a widespread demand for two-temperature boxes, that, in and of itself, is not evidence of commercial success of the patented structure. You must find that the combination described in Potter and Bronaugh was a commercial success.

Patents for machines consist substantially of three parts. First, a drawing of the device; second, a specification, which is a verbal description of the device illustrated in the drawing; and, third, which is the most material part, the claims of the patent. It is the law that after a man has illustrated and described his device, he must particularly point out and distinctly claim the part, improvement or combination which he claims as his invention. He may show and describe many things in the drawings and specifications that he did not invent; but when it comes to the claims, he must there define or describe his exact [1502] invention so as clearly to distinguish it from what was old, that is, from what existed before his invention. The claims of the patent are the measure of the grant from the Government to the patentee. He cannot claim something which he does not show or describe; nor something which he did not invent. He can claim only the thing which he has invented and his claims must define that particular thing so that the public will

know what that thing is and be able to avoid infringing it.

The function of a patent claim is not merely to outline or to summarize what is shown and described, but rather to define the exact boundaries of the invention—that is, to determine with precision or to mark out clearly the boundaries or limits of the invention.

Neither the specification nor the drawings of a patent can be infringed; only the patent claims can be infringed.

Plaintiff relies on all four claims of its Reissue Patent 23058, and it asserts that all of such claims are valid and were infringed by the accused structures; that is, by the Admiral and Amana refrigerators.

It is conceded that Claim 2 is the broadest claim; that is, it is plaintiff's best claim. I shall, therefore, read it verbatim:

“2. A household refrigerator which in [1503] normal operation provides above-freezing moist cold air for preserving in a refrigerated condition foods susceptible to moisture loss by evaporation and below-freezing dry cold air and a dry cold surface for preserving foods in a frozen condition, said refrigerator comprising a cabinet having a cooling compartment and a freezing compartment, thermal insulation around said compartments thermally insulating said compartments from each other and from the outside atmosphere, a cooling refrigerant expander having heat-conducting surfaces within

said cooling compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature above 32° F. while withdrawing heat from said compartment, whereby air in said cooling compartment is cooled thereby to a temperature above 32° F. and is maintained at a humidity whose relative value is at least 100% at 32° F., a freezing refrigerant expander having heat-conducting surfaces within said freezing compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature well below 32° F. while withdrawing heat from said compartment whereby air in said freezing compartment is cooled thereby to a temperature well below 32° F., volatile refrigerant [1504] in said expanders, a single liquefying unit associated with said expanders and constructed and arranged to condense refrigerant expanded by heat extracted from both said compartments, the volatile refrigerant circulating through said expanders being the sole heat-extracting medium, and a thermostat responsive to the temperature in one of said compartments controlling the operation of said liquefying unit."

I might add here that that is called a description, and I merely want to say that all of the elements described in this claim are essential to the validity of the plaintiff's claim, and, as I shall tell you later, you must find that the accused structure has all of these elements, or the equivalent thereof, in order to find infringement.

Claim 1 is like Claim 2 except that air in each compartment is defined as an operating element of the combination.

Claim 4 is like Claim 2, except that it provides for greater thermal insulation around the freezing compartment than around the cooling compartment and a thermostat responsive to the temperature in the cooling compartments instead of either compartment.

And Claim 3 is the narrowest claim, since, in addition to all of the elements set forth in Claim 2, it [1505] provides for both air and differential thermal insulation.

You will have with you in the Jury Room a copy of this reissue patent, and you can check each of the claims for yourselves.

I have already instructed you at length on the question of anticipation and invention, but I want to correlate these and other defenses of the defendants with the precise claims that they are making in this case.

First, Defendants contend that the alleged invention set forth and claimed in the Letters Patent issued to Bronaugh and Potter had been shown, described and patented prior to the time that Bronaugh and Potter are alleged to have made their invention.

Second: That the patent in suit does not describe an invention, and the machine therein described, at most, represents an improvement that was obvious to anyone "skilled in the art."

I shall not instruct you any further on these two contentions because I have already instructed you

at great length concerning them. If you find that either or both of such contentions have been proved by clear and convincing evidence, your verdict must be in favor of the defendants.

Third: Defendants next contend that the specification in the reissue patent is not in such full, clear and concise terms as will enable a person "skilled in the art" [1506] to make and use the same. This contention relates to the alleged failure of the patentees to describe in the specification what was described as a fin coil or a brine tank.

The law provides:

"The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention."

I leave it to you to determine as a question of fact whether there was a disclosure in accordance with the law. If it clearly appears that there was no such disclosure in the specification, you must find the patent invalid.

The defendants next contend that the claims of the patent are vague, indefinite and ambiguous and do not point out and distinctly claim the subject matter which the patentees regard as their alleged invention.

The following is a statement of the applicable statute:

“The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.”

It is important that the claims define the particular thing claimed so that the public will know what that thing is and be able to avoid [1507] infringing it.

The monopoly of a patent is a valuable right. It permits the holder thereof to exact toll from all those who desire to use it. No such monopoly should be given to anyone unless the monopoly is specifically and definitely defined. When a patentee maintains that his invention resides in a new combination of old elements, the law requires that the combination claims should be scrutinized with the care proportioned to the difficulty and improbability of finding invention in an assembly of old elements. When a patentee has added nothing to the total stock of knowledge, but merely brings together segments of prior art and claims them in congregation as a monopoly, the patent is invalid. As I told you before, a combination to be valid must produce some new or different function—one that has unusual or surprising consequences.

You will have with you in the jury room each of the four claims of the reissue patent. You can examine them, yourselves, in the light of the testimony given by the two patent experts, Mr. Norman

Parker for the plaintiff and Mr. Glenn Muffly for the defendants. As you will recall, they are in sharp disagreement as to the meaning of the patent claims, and it will be for you to determine from all of the evidence whether the patent claims distinctly set out the matters which the patentees regard as their invention.

If it clearly appears that all four claims [1508] do not meet the statutory standard, then, of course, you would find the patent invalid. However, the mere fact that you find one of such claims does not meet the standard does not necessarily mean that the other claims are likewise deficient. Each claim must be considered separately. Only such claims as do not meet the statutory standard are invalid.

I remind you that each of these contentions asserted by the defendants is to be separately considered and decided by you upon all the evidence in the case, bearing in mind that the burden rests upon the defendants to establish one or more of these contentions by clear and convincing evidence. And if the defendants fail to sustain this burden as to any of them, of course, you must find all the claims valid; but, if on the other hand, you find that the defendants have established one or more of such contentions by clear and convincing evidence, the patent would be invalid, and your verdict must be in favor of the defendants. It may be that the claimed invalidity might not affect all of the claims of the patent, and if so, only such claims as are affected would be invalid.

I will submit to you a number of interrogatories

in connection with the issue of validity, and you should answer all of them in accordance with these instructions. However, I will go over the questions with you in detail [1509] and will instruct you further at that time.

If you find in favor of the defendants on the question of validity—that is, if you find that all claims are invalid—your deliberations will be at an end, and you will bring in a verdict in favor of the defendants. However, in addition to the general verdict that will be submitted to you, please answer the interrogatories relating to the question of validity.

If you find that one or more claims in the patent in suit is valid, you will then consider the question of infringement.

Infringement is to be found when the accused structures accomplish substantially the same result by substantially the same means as does the patented invention. Or, stated differently, in order for there to be infringement you must find that there is identity of structure, identity of function and identity of result between the accused refrigerators and the claims of the patent in suit. By this is meant that the construction of the parts of the accused refrigerators, the way in which they operate, and the result achieved by this operation is substantially identical with that of the patent.

Plaintiff must show that the defendants' refrigerators embodied all of the elements included in one or more of the claims; that those elements in the accused [1510] refrigerator acted or operated in

substantially the same manner as the elements in the patent claims to produce substantially the results claimed. If you find that the defendants' refrigerators contained different elements from the device described by the patent claims or that the elements or parts of the defendants' refrigerators acted together in a different manner, or that the results claimed for the device of patents were not attained by the defendants' refrigerators, then you should find for the defendants on the question of infringement.

Of course, I need not tell you that only valid patents can be infringed, and if you come to the conclusion that the claims of the patent in suit are invalid, there could be no infringement regardless of how close the accused structures resemble the claims in the patent.

On the question of infringement, the plaintiff has the burden of proof, and it must prove by a preponderance of the evidence that the accused structures infringed one or more claims of the plaintiff's patent. Let me emphasize the word "claims." The plaintiff must show by a preponderance of the evidence that the refrigerators sold by the defendants were constructed not in accordance with the refrigerators sold by the Potter Refrigerator Company nor in accordance with the devices shown or described in their patent, but in accordance with the claims of the patent. In other [1511] words, you can only infringe patent claims.

Now the defendants contend that there are substantial differences between the accused structure

and the claims of plaintiff's patent. Before taking up these specific claims, I desire to point out that in connection with the question of infringement the jury may look to the operations of the accused structures in the light of what is done and how it is done. Variances which are insubstantial or sham, which do not prevent the accused operations from being in essence of that of the patent, do not avoid infringement.

This is another way of saying that the accused structures must substantially accomplish the same result by substantially the same means as does the patented invention. In patent law, the interpretation of the word "substantially" depends upon the character of the invention involved. If the invention is a pioneer one, the word "substantially" has a broad meaning, but if the invention is a minor or narrow one, the word "substantially" means practically "identical." In patent law, this is known as the range of equivalents.

Where a patentee has made a substantial advance in the art, he is entitled to a broad and liberal range of equivalents. But where the art is close; that is, where the thing invented is not of a pioneer character but is [1512] merely a narrow improvement of a known machine or art, then the patentee is only entitled to a narrow range of equivalents. In other words, when the range of equivalents to which a patentee is entitled is narrow, the accused structures must be practically identical to the claims of the patent.

There was testimony that the Bronaugh and Potter patent was a long stride in the refrigerator art, and on the other hand, there was testimony that at the time of the alleged Bronaugh and Potter invention, there were in excess of 40,000 patents relating to electric refrigeration on file in the United States Patent Office.

As you know from the arguments and the previous instructions, all of the elements in the claims in the patent in suit are old in the art. Plaintiff does not contend that Bronaugh and Potter invented a two-temperature refrigerator, one with freezing compartment and the other a cooling compartment standing alone, nor does it claim that Bronaugh and Potter invented moist cold or a non-frosting coil. In view of such facts, and the histories of the original patent and the reissue patent as disclosed in the file wrappers, I leave it to you to determine whether this is a pioneer patent entitled to a wide range or equivalents or a narrow improvement in a crowded field entitled to a very narrow range of equivalents.

As I said before, the defendants contend that even [1513] if Bronaugh and Potter reissue patent is valid, there is no infringement because there are essential differences between the accused structures and the claims of the patent in suit:

First: Defendants contend that all of the claims call for cooling coils within the cooling compartment and that in the accused refrigerators the cooling coils are outside the cooling compartment.

Second: Defendants further contend that all claims call for freezing coils within the freezing compartment, and in the accused refrigerators the freezing coils are outside the freezing compartment.

These are not in the exact words of the claims, but by referring to the claims you can get the exact words.

Your determination of these two contentions is dependent upon whether you find that the word "compartment" refers solely to the portion of the refrigerator in which the food is stored or whether it includes the frame and the portion of the refrigerator within the insulation. On this issue there is a sharp conflict between the experts. There was evidence of a later Potter patent introduced to show what Potter and Bronaugh meant by the term "compartment," but your determination of the meaning of the word "compartment" is not the interpretation of that word by Potter in the latter patent, but what the word "compartment" would mean to a person "skilled in the art" after examining the drawings and the specifications of the patent in suit. Therefore, [1514] what Potter and Bronaugh disclosed in the patent in suit is important, and you should look to the drawings and the description to determine if you can what Bronaugh and Potter describe as the compartment in the patent in suit. The cooling compartment is designated 14, and the freezing compartment 12 and 13.

Third: Defendants contend that all of the claims of the patent call for a single liquefying unit but

in the accused structure there are two liquefying units.

Fourth: All of the claims call for a volatile refrigerant in the coils. In the accused refrigerators there are two separate and distinct volatile refrigerants, each flowing through separate and distinct circuits.

You will recall the testimony that in the accused structures, there is one liquefying unit for the cooling compartment and another liquefying unit for the freezing compartment, each of which is in a separate circuit, and that the liquid in each circuit does not intermingle with each other. However, there are two plates between these two circuits, which permit heat to flow from one circuit to the other.

Now the plaintiff contends that this arrangement in the accused structure is merely an improvement of the single circuit shown in Bronaugh and Potter, but that such improvement embodies all of the essential features of the claims of Bronaugh and Potter and is the full equivalent thereof. [1515]

I leave it to you to determine whether, in the light of the instructions I have heretofore given you, the arrangement in the accused structure is the full equivalent of the single liquefying unit and volatile refrigerant in the patent claims.

I also call your attention to the fact that the defendants claim that this type of primary and secondary circuit used in the accused structures

follow the Gibson patent, which is owned by the Frigidaire Division of the General Motors Corporation and to which defendants pay royalties. This fact, and this fact alone, would not exonerate the defendants if you find that these circuits were the full equivalent of the structures claimed in Bronaugh and Potter, but it is evidence for you to consider on the question of infringement.

If plaintiff fails to prove by a preponderance of the evidence that the organization of these two circuits in the accused structure is the full equivalent of the claims of Bronaugh and Potter, you will find that the accused structures do not infringe the claims of Bronaugh and Potter, and you will find for the defendants.

Defendants, as their fifth and final contention, allege that the accused structures are of the type commonly known as the "cold wall refrigerators" as distinguished from the structures described in the patent in suit which are of [1516] the type commonly known as the "finned coil refrigerators," and that there are essential differences between these two types of household refrigerators. The plaintiff asserts that in essence the cold wall refrigerator is merely an extension of the finned coil and is the full equivalent thereof. In the light of the instructions I have given you with reference to range of equivalents, I leave it to you to determine whether that is or is not true.

As I previously told you, each element described in the claims in the patent in suit are essential and in order to find infringement you must find that

the accused structures contain all of such elements or their equivalents. If you find that the accused structures do not contain one or more of such elements or their equivalents, you must find that the accused structures do not infringe the claims of the patent in suit, and your verdict must be for the defendants regardless of whether the patent is or is not valid.

If you find that the accused structures do not infringe the claims of the patent in suit, your deliberations will be at an end, and you will return a verdict in favor of the defendants. However, if you find that one or more claims of the patent in suit is valid and if you find that the accused structure infringed the claims of plaintiff's patent, then you will consider the question of damages. The mere fact [1517] that I am instructing you on the question of damages does not mean that I am or am not of the opinion that the patent is valid or that the claims have or have not been infringed. On those issues I am expressing no opinion.

Damages, like any other proposition, must be proved by a preponderance of the evidence upon the part of the party making the claim, and plaintiff being the claimant has the burden of proof on this issue. The amount to which you find plaintiff is entitled, if you find it is entitled to damages, must not be based on speculation or conjecture. It must be reached and founded upon an unprejudiced consideration of all the facts in the case and without any sympathy or prejudice or a desire to punish anyone and without any thought of plain-

tiff's financial condition or the defendants' ability to pay.

The damages to which plaintiff is entitled are to be determined on the basis of what would be a reasonable royalty for the use of its patent, and by applying that royalty rate to those refrigerators manufactured by the defendants which infringed the claims of plaintiff's patent.

A reasonable royalty is an amount which a patent owner, willing but not compelled to grant a license, would accept, and which a person desiring to manufacture and sell the patented article as a business proposition, but not compelled to acquire a license, would be willing to pay as royalty in the expectation of being able to make and sell the patented article in the market at a reasonable profit. [1518]

You have heard the testimony of Mr. Parker, a patent expert, in response to a hypothetical question as to what would be a reasonable royalty under the patent in suit. His conclusion was based upon the assumption that all of the facts contained in the hypothetical question were true. If you should find from the evidence that the facts assumed as to any one of these elements in the hypothetical question were not true, you may disregard the answer to such question.

There was also introduced in evidence licensing agreements between Admiral Corporation and General Motors Corporation covering the Gibson patent and similar patents. You may consider these licensing agreements, as well as the other licensing agree-

ments introduced in evidence, in addition to the other testimony concerning the character of the invention, to determine reasonable royalty.

A pioneer patent would be entitled to a greater royalty than a narrow patent in a crowded field. The earnings in the industry, the profitableness of the patented device and all of the other facts introduced in evidence may be considered by you in determining reasonable royalty.

There will be submitted to you a general verdict and a special verdict. If you find in favor of the plaintiff, you will use the general verdict which reads as follows:

“We, the jury, find our verdict in favor of [1519] the plaintiff, Moist Cold Refrigerator Co., Inc., and against the defendants, and assess plaintiff’s damages against the Admiral Corporation at \$. and assess damages against the Amana Refrigeration, Inc., at \$.

“Dated this . . . day of December, 1955.

.....,

“Foreman.”

In the Federal Court all verdicts must be unanimous. Therefore, before you can return a verdict in favor of the plaintiff, each person on the jury must agree, first, that one or more claims of plaintiff’s patent is valid; second, that such claim or claims have been infringed by the accused structures of the defendants; and that the plaintiff suffered damage thereby.

On the question of damages, each juror must agree that the amount allowed is proper. If you come to the question of damages, please remember that the jury is not permitted to strike an average from the amount which each juror believes that plaintiff should receive; in other words, you may not agree in advance that the total amount of the sum which each juror believes plaintiff is entitled from a particular defendant, divided by 12, shall be the verdict of the jury. Neither shall the verdict be determined by any other mechanical means. Of course, if you get to the [1520] question of damages, you must discuss it fully, just as you do every other phase of the case, and on the basis of your discussion arrive at a figure which is satisfactory to each juror—but don't do it by agreeing in advance to add the amounts each juror feels plaintiff is entitled and then dividing the total by 12.

If, on the other hand, you find in favor of the defendants, you will return the following verdict:

“We, the jury, find our verdict in favor of the defendants, and each of them, and against the plaintiff.

“Dated this day of December, 1955.

.....,

“Foreman.”

The verdict, whether for the plaintiff or the defendant, is signed only by the foreman and, therefore, I want to caution the foreman, whoever he or she may be, that the verdict represents the unani-

mous opinion of each of the jurors whether it be either for the plaintiff or the defendants.

Now, in addition to the general verdict, at the request of both parties, special interrogatories are being submitted to you.

The first of these interrogatories, under the title of validity, reads as follows: [1521]

“A. Does the claimed combination of elements (part) in the Bronaugh and Potter reissue patent produce some new and different function, one that has unusual or surprising consequences?”

I have already fully instructed you on what constitutes invention, and this interrogatory is directed to that question.

The second interrogatory reads as follows:

“Q. Did Bronaugh and Potter make any invention over the Anderson patent?”

In connection with your consideration of this question, you shall consider two things: First, anticipation. Did Anderson fully anticipate Bronaugh and Potter? If it did, your answer should be “No.” Likewise, if the differences between Anderson and Bronaugh and Potter are such as would have been obvious at the time the invention was made, to a person skilled in the refrigeration art, your answer should likewise be “No.” Your answer to this interrogatory should be “Yes” if you find that Bronaugh and Potter made some discovery of a patentable character. Please remember that in this and other interrogatories relating to validity, the plain-

tiff has the advantage of the presumption of validity, and the defendants must show invalidity by clear and convincing evidence.

The third interrogatory reads as follows:

“Did Bronaugh and Potter make any [1522] invention over what is shown in the Anderson patent plus the Larkin patent?”

Anderson, you will recall, disclosed a two-temperature refrigerator, and Larkin disclosed a finned coil. As I explained to you previously, it is proper to look to the entire prior art. To determine invention and the mere fact that some of the elements of a combination claim are found in one prior art patent and other elements are found in another does not render it ineffective as a guide for ascertaining novelty. There still remains the all-important question as to whether the combining of such old elements amounts to patentable invention or whether it might be reasonably expected of one skilled in the art.

The next question refers to the validity or invalidity of each claim in the patent. I have already told you that Claim 2 is the broadest, and I have explained the differences between Claim 2 and the other claims. This interrogatory reads:

“Do you find the following claims to be vague, indefinite, or ambiguous?”

Then there is Claim 1 and you are supposed to answer that “Yes” or “No”; and the same for 2, 3 and 4.

Now, I am going to make a comment on this. There hasn't been very much evidence as to specific claims. Most of the evidence that has been

introduced is either that [1523] all the claims are valid or all the claims are invalid. Frankly, I don't know how you could answer one of these questions from the other and, therefore, it seems to me that if you find that the patent is valid you will find all the claims valid but if you find that the patent is invalid you will find all of the claims invalid.

Does anybody have any objections to that statement? Mr. Cuningham, do you have any objection to that statement?

Mr. Cuningham: Yes, your Honor.

The Court: All right. Well, then, I will withdraw the statement and you can look at each claim. You might find one valid and the other invalid.

The next group of questions relate to infringement. The first one reads:

“Do defendants' refrigerators have a cooling refrigerant expander (coil with or without extended surfaces) having surfaces within the cooling compartment?”

I have added after the word “expander” the words, “Coils with or without extended surfaces,” because in my view a refrigerant expander is the same as a coil. You will recall the testimony and also my instructions concerning the meaning of the words “cooling compartment,” and you will answer this question “Yes” or “No” depending upon whether you find that the cooling compartment is solely the space in which food is stored or [1524] is the structure within the insulation.

The next question reads as follows:

“Do the defendants’ refrigerators have only a single liquefying unit associated with refrigerant expanders (coils with or without extended surfaces) and constructed and arranged to condense refrigerant expanded by heat extracted from both the compartments?”

Here again it is my view that the refrigerant expanders refer to coils, either with or without extended surfaces. I have already instructed you on the basis upon which you shall determine this question. Therefore, I shall not repeat these instructions.

After all of these questions have been answered, it should be signed by the foreman. I desire to point out that if you find in favor of the defendants on the question of validity, you need not answer the questions relating to infringement. However, you may do so if you desire, and if it is early enough I hope you will.

Again, I desire to express my deep appreciation to each member of the jury for the careful attention you have paid to the evidence, the arguments of counsel, and now to my instructions. The case will be submitted to you within the next few minutes, but before that time, there is a legal matter that I desire to take up with the attorneys for the respective parties in chambers.

(Conclusion of Instructions to Jury.) [1525]

EXCEPTIONS TO INSTRUCTIONS OF THE COURT

(The following proceedings were had in the Court's chambers out of the presence of the jury.)

The Court: Under our Rules the person taking an exception must essentially set out the part which he regarded as offensive or point out the failure of the Court to have given an exception. Go ahead, with that in mind.

Mr. Cuninghame: Well, if your Honor please—and I merely took notes as I heard the instructions given—my notes, however, do indicate that in your discussion of the Seventh Circuit Court of Appeals decision you said that patent as distinguished from the claim—you didn't say as distinguished; you said the patent was—original patent—was held invalid. I think that would be rendered unobjectionable if it were amplified to point out that it was the form of the claim that resulted in holding the patent invalid and not any invalidity in view of the state of the art or for application.

I understand that to be correct and I feel that the jury could reasonably and logically draw an erroneous conclusion from that description of the holding.

The Court: Well, Mr. Cuninghame, I subsequently told them that the owners of the patent went back to the Patent Office and by making certain corrections were reissued the [1526] patent.

Mr. Cheatham: Your Honor, may I state that I

had more time to think about these when we were drafting them not in Mr. Cuninghams presence and I would like to have him take up with me any point to see if I can tell him where the same thing has been recovered.

The Court: I think, as a matter of law, however, that the Court did declare the patent to be invalid. Isn't that the only thing they can do? If the claims were improperly set up, they declare the patent invalid.

Mr. Cuningham: Declare the claims invalid technically. I think your Honor used the word "patent."

The Court: Go ahead.

Mr. Cuningham: May I mention one more? This is perhaps an oversight. Your Honor did quote, and, correctly, I think, Section 112 of the Act down to but not including the last paragraph thereof. Of course——

The Court: That was left out with Mr. Cheatham's consent. He agreed to it.

Mr. Cheatham: I did, your Honor.

Mr. Cuningham: But, your Honor, the point is this: I don't know whether he agreed to this. I don't know how he could. You immediately followed the quotation omitting that paragraph with reference to the language of the A. & P.T. Company case as to the improbability of finding invention [1527] in a combination of old elements. Now, this, it seems to me—we are certainly entitled to have a statement as to the full statute that governs here.

The Court: I dictated it and then we decided that it wasn't——

Mr. Kolisch: That has to do with the functionality.

The Court: Yes; functionality.

Mr. Cuningham: Functionality and vagueness are identical.

The Court: The point was that by reason of the withdrawal yesterday of any claim of functionality——

Mr. Cuningham: Withdrawal of vagueness. And I think it is all right, but I think you have got too much vagueness in this case—claim of vagueness to omit that. And functionality is no more than vagueness. And that is without my consent.

The Court: You want the following portion included: "An element in a claim for a combination may be expressed as a means or a step for performing a specified function without the recital of structure, material or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material or acts, described in the specification and equivalents thereof."

Mr. Cuningham: Yes, your Honor.

The Court: I am going to reject your request, not [1528] because it was what Mr. Cheatham said yesterday but solely because of the fact that I think it is immaterial in view of the withdrawal of the claim of functionality.

Mr. Cuningham: And I have one or two other things. I note an objection in various places—I am not able at the moment to identify them—but simply

from my notes the word “surprising,” “surprising results.”

The Court: You may have an exception to the use of those words.

Mr. Cuninghame: May I limit it, your Honor, because I don't mean every use of “surprising,” but it is where you stated—

The Court: As one of the requirements for invention.

Mr. Cuninghame: As a requirement for there being patentable invention in a combination and that there must be unusual and surprising results.

The Court: You may have an exception to that. I used the word advisedly based upon my examination of the decisions from the Ninth Circuit.

Mr. Cuninghame: Now, the other thing that I notice here—well, I haven't too clear a note on it—but I recall it and that was as I understood it and I could be wrong about this—but, as I understood your instructions, you did not approve piecemeal anticipation, that taking—combining in 1955 patents that were old in the art but were widely [1529] separated at the time as far as anticipation. But it seemed to me that your instructions wiped out that very well-established law against piecemeal anticipation in that you advised that you could look at more than one patent, and I believe there is a specific question which combines the admittedly prior art of the Anderson patent with the Larkin patent which is not, as I understand it, in the prior art and as we have contended and as we have requested

your Honor to differentiate in the requests for instructions.

The Court: I think you are a little in error there for this reason: I did give the instruction which you requested on anticipation, but on the question of invention I followed the Seventh Circuit. The language is practically taken verbatim from the Seventh Circuit decision which says that piecemeal anticipation, there is nothing wrong with it in determining the state of the art and you can look through all of the prior art patents and add one element from one and one from another to determine whether there was an invention. That was the thought I expressed in my instructions.

Mr. Cuningham: Then, lastly, your Honor, I note a total failure to give any instruction to the effect or to leave to the jury any question as to whether Gibson was later or earlier than the invention—dates of invention of the patent in suit. Now, a great deal of our record and many of our witnesses—five at least—have given evidence on [1530] this. I think that—and, of course, the same remarks apply in respect to the Potter—later Potter file wrapper.

The Court: Mr. Cuningham, I did that for your benefit. That was an advantage for you because I did not cite Gibson as anticipation but merely as a completely different line and then I went even further and said that even though they did follow Gibson it wouldn't be exonerating for them.

Mr. Cuningham: Mr. Cheatham tells me—I just

took notes as you were giving the instructions. However, that is all the notes, and I have finished.

The Court: All right. That is fine. I thought that that was a very favorable instruction to the plaintiff.

Mr. Cheatham, have you got any exceptions?

Mr. Cheatham: No, your Honor. Thank you.

The Court: Who is going to make the exceptions for the defendants?

Mr. Kolisch: We have no exceptions, your Honor. The only suggestion we would have would be the instruction that before you can find any of the claims to be valid you must first be satisfied that the patentees did make an invention and "I have previously instructed you on the meaning of the term."

The Court: I have told them that so many times. If they don't know that now, they will never know it.

I was a bit concerned about that [1531] interrogatory concerning validity of each claim. I did that specifically for the benefit of the plaintiff.

Mr. Cuninghame: Your Honor, I think you did but, you see, the difficulty is these narrower claims like 3 and 4 are just clearly not met by Larkin combined with Anderson even though I think that combination is entirely improper.

(Whereupon the following proceedings were had in the courtroom in the presence of the jury.)

The Court: Ladies and Gentlemen of the jury, there are no changes that I desire to make in the instructions I have heretofore given you. As I told you before, the instructions which I gave will be transcribed and if you want them have the foreman notify Mr. Hart and they will be delivered to you.

There are one or two other things I would like to tell you. You will have the instructions, probably, because I saw a couple of you shake your heads "Yes," indicating you want the instructions. Now, I think that covers everything. But sometimes some of the jurors have an idea that they want to know something else, and under those circumstances you can notify Mr. Hart, but don't tell him anything other than that you have a question that you would like to have put. Don't tell him, "We are standing six to four," or something like that. It is none of his business [1532] how you stand. Don't ask him for any advice concerning the case. As far as food and drink—that is, water—we will see that you get that. But otherwise all of the communications are to be directed to me.

Now, it may very well be that your inquiry will not be answered because that will have to be done with the consent of both attorneys for the plaintiff and defendants. I think that you have all the instructions that you need to return a verdict and to answer the interrogatories. If the time comes that you want to look at the boxes themselves, arrangements will be made for the courtroom to be cleared

and you will have that opportunity. You just tell Mr. Hart. All other exhibits will be brought to the jury room for you.

(Whereupon the Crier was sworn.)

The Court: Now is the time for you to deliberate and the time has come when you can discuss this case with your fellow jurors to your hearts' content.

I want to talk to the two alternate jurors. Thank you very much for the patience which you have shown here today. You have been here every single day and we appreciate it. Under the law, however, only twelve people can deliberate, and you are now excused from further attendance at the trial.

(Thereupon the two alternate jurors were excused.)

(Whereupon the jury was excused and retired to their deliberation.) [1533]

(Court convened at 10:45 A.M. December 2, 1955, for the Court's consideration of the jury's question concerning interrogatories.)

The Court: Mr. Duyck, I have been advised that the jury has some problem or question concerning interrogatories, and it is for that reason that I assembled all the attorneys here because we would like to know what problem you are encountering with the interrogatories.

Mr. Duyck: Your Honor, these interrogatories are a thing, you might say, completely new to the members of the jury and we don't know their mean-

ing or their import. We are just too stupid to really ask questions about it. We would like to have explained to us what they are and why we have been presented with them.

The Court: Well, let me ask you one or two questions first. Aren't they clear?

Mr. Duyck: I think the interrogatories are concise.

The Court: Do you think they have hidden meanings or jokers in them?

Mr. Duyck: We don't understand why they have been presented to us.

The Court: All right. Well, under the law it is proper for a judge to submit to a jury either a general verdict or a special verdict. Now, many times in the Federal System [1534] only questions are propounded to a jury. Answer these Yes or No. There is no general verdict.

Now, in this particular case we submitted a general verdict, but in order to arrive at that general verdict you have to make certain decisions. In order to see what those decisions were, primarily for the benefit of the Court but also for the benefit of the litigants, we asked you certain specific questions. Now, there are no tricks, there are no hidden meanings in these things; they are just simple questions. For example, Question No. 2 or 3: "Did Bronaugh and Potter make any invention over what is shown in the Anderson patent plus Larkin patent?" You all know that Anderson had a two-temperature box. Larkin had invented the finned coil.

Mr. Duyck: Your Honor, may I interrupt? That

is the thing we run into in our mental block; we get: "Why does he want to know that?"

The Court: Well, I want to know because only by your being able to answer that question are you able to bring in a verdict either for the plaintiff or for the defendant. If you don't answer that question, you haven't made up your mind, really, of the basis of your decision. If you can't answer these questions, you are not entitled to bring in a general verdict because you haven't decided the case. Do I make myself clear now? [1535]

Mr. Duyck: I think you have made yourself very clear, your Honor.

The Court: Only by answering these questions, only by having an opinion on these questions can you honestly bring in a verdict. If you haven't resolved these questions, you are not ready to bring in a verdict.

Now, these things have to be decided. I should ask, although you haven't brought it up, Mr. Duyck, do you think an agreement can be obtained in this case?

Mr. Duyck: I think so. I think we have pretty well——

The Court: All right; that is enough. I just don't want to go any further on these things. Now, I think that practically every other question except the one I just gave to you or the statement or answer that I just gave you can find the answers in the instructions and I think probably you have referred to that considerably. Now, if there is anything else you want to know, let me know.

Mr. Duyck: I think, your Honor, that that clears up the situation.

The Court: All right. Fine.

This has been a long case. I know there are a lot of problems, and I know how conscientious you are, so don't worry about disturbing me or any of the attorneys. If you have a question, you let me know and I will get the attorneys up here and we will answer your question if we possibly can. [1536]

You are excused now.

(Whereupon the jury retired to continue their deliberation.)

[Endorsed]: Filed March 16, 1956. [1537]

TRANSCRIPT OF PROCEEDINGS IN RE: DEFENDANTS' MOTIONS FOR DIRECTED VERDICT AND FOR JUDGMENT NOTWITHSTANDING THE VERDICT

Mr. Cheatham: May it please the Court, I would like to enter the appearance of Mr. Hugh L. Biggs on behalf of Plaintiff in this action.

The Court: We are always glad to have Mr. Biggs sit in this court.

Mr. Biggs: Thank you, your Honor.

The Court: Mr. Kolisch?

Mr. Kolisch: Your Honor, I would like to hand up to your Honor Defendants' Motion for Judgment Notwithstanding the Verdict and a memorandum of law, a short memorandum of law in support

of this motion. Copies of these papers were served on plaintiff on Saturday morning.

The Court: Proceed.

Mr. Kolisch: The basis for this motion is that the jury disregarded the Court's instructions and returned a verdict which is completely unsupported by the evidence and does not conform to the applicable law.

I think at the outset it would be well if the Court were to listen to a short portion of its own instructions.

The Court: Mr. Kolisch, you do not have to read my instructions to me. I have read them very carefully, and [2*] I have read all the cases which you cited over the week end, except perhaps *McCroskey v. Braun*, 107 Fed. (2d) 143.

We will hear from the other side.

Mr. Cuninghame: May it please the Court, we have handed up in this elaborate binding a memorandum in opposition. I would like to stand on the memorandum for the details. Copies of that have been served today on my friends on the other side.

The position spelled out, if your Honor please, with some care and some particularity in the document, that is, the second document in the binder and which is labeled "Plaintiff's Memorandum in Opposition to Defendants' Motion Notwithstanding," takes up seriatim each of the points under the three chief headings, mainly alleged invalidity, noninfringement, and excessive amount of verdict. The effort has been throughout to cite chapter and verse

*Page numbering appearing at top of page of original Reporter's Transcript of Record.

for the record to show where there is ample basis in the record before this Court supporting the verdicts of the jury in all respects. I think I could do no better than to rely upon the statement. I am not trying to duck any argument, but it seems to me that what argument I would make would be, at best, a paraphrase and not as good a one as the brief upon which we now rely. Would that be satisfactory to your Honor?

The Court: It would be perfectly satisfactory with me. I know how I am going to decide this motion. I have read [3] the testimony, and I have read my instructions. I do not believe any useful purpose will be served to delay my decision on the motions for a directed verdict and for judgment notwithstanding the verdict.

I am of the opinion that the motions must be granted. I am also of the opinion that even assuming validity and infringement there is no rational basis for the amount of the verdicts that were rendered against defendants Admiral Corporation and Amana Refrigeration, Inc., or either of them.

Both before and during the trial I informed counsel that I wanted to submit this case to the jury because it had been pending for a long time. It had already been to the Court of Appeals once, and the expenses incurred by both sides were great. In addition to numerous depositions of witnesses residing in the East and South, there were a number of lay and expert witnesses from various parts of the United States, and out-of-town counsel were here for many weeks even before the trial.

At the conclusion of the plaintiff's case in chief I seriously considered directing a verdict in favor of the defendants because from the testimony and the exhibits, particularly the prior art patents, it did not appear to me that the plaintiff's patented device had met the rigid standards of invention laid down in *Berkeley [4] Pump Co. v. Jacuzzi Bros.*, 214 F. (2d) 785 (C.C.A. 9th, 1954); *Kwikset Locks v. Hillgren*, 210 F. (2d) 483 (C.C.A. 9th, 1954); and in numerous other decisions from our own Circuit as well as from the United States Supreme Court, involving the "assembling (of) old elements, the previous functional operations of which are not changed by their arrangement and inclusion in the device."

The patent in suit involves improvement in an household refrigerator. Each element in the alleged combination was old in the art. They consist of a cabinet, a cooling compartment, a freezing compartment, thermal insulation, a cooling refrigerant expander, a freezing refrigerant expander, volatile refrigerant, a single liquefying unit, and a thermostat. All of these elements, when combined together—and I am not using the word "combined" as a word of art—acted as they had acted in the past, and the end result did not exceed the sum of its parts. Or, stated differently, the old elements making up the device did not perform an additional and different function than they performed out of it.

I was also of the opinion that the alleged combination of the patent in suit "did not perform some

new and different function—one that has unusual or surprising consequences.”

The patent in suit consisted of a household [5] refrigerator having a separate freezing compartment and a separate cooling compartment operated by a single liquefying unit with the cooling compartment having a humid temperature, or moist cold, and with a non-frosting coil in the cooling compartment.

I, therefore, came to the conclusion that even if Anderson or some other prior art patent had not fully anticipated the patent in suit in every material part, it was nevertheless invalid because it did not meet the standards of invention as laid down in the decisions to which I have already referred.

I was also concerned about the fact that although it was conceded that the validity of the patent in suit is dependent upon the existence of a fin coil or other extended surface coil, such a coil was not disclosed in the specification. Plaintiff's expert testified that by looking at the drawing he could tell that a fin coil or a brine tank was described. He, therefore, contended that the failure to disclose the fin coil in the specification did not invalidate the patent. However, it appeared to me that the requirements of 35 U.S.C.A., Sec. 112, had not been met.

I likewise was in doubt as to whether the claims were sufficiently definite to satisfy the statute. In spite of such conclusions and doubts, I denied defendants' motion for a directed verdict at the end of plaintiff's case in [6] chief.

Thereafter, Mr. Glenn Muffly, defendants' refrig-

eration and patent expert, testified at great length concerning the validity of the plaintiff's patent in suit and also concerning infringement. The only information elicited from Mr. Muffly on cross-examination was that he regarded the Anderson patent as the closest to the patent in suit. Thereafter, Mr. Parker, plaintiff's expert, again resumed the stand and contradicted the testimony of Mr. Muffly with respect to certain conclusions about which he had testified.

When all of the evidence was in, the defendants again moved for a directed verdict on the same grounds which they had previously urged. Again, I seriously considered granting the motion because by that time it had appeared that, in addition to the patent being invalid, it had not been infringed.

There was no dispute about the structure of the accused devices. They were cold wall refrigerators as distinguished from the fin-type refrigerator which is exemplified in the patent in suit. Likewise, all of the claims of the patent in suit call for a single liquefying unit; in the accused structures there were two liquefying units, each of which had its own volatile refrigerant flowing through a separate and distinct circuit. [7]

Parenthetically, I might add that during the argument to the jury plaintiff's counsel stated that the use of a primary and secondary circuit in the accused structures was an improvement over the structure described in the patent in suit. I wondered at the time how he could establish identity of structure with this admission.

Although plaintiff's counsel denied that the doctrine of equivalents was applicable, the only basis I could discover upon which the jury might find identity of structure was in that doctrine. The jury, in answer to the special interrogatories, found them to be identical, a finding which in my opinion was proper only if the patent in suit was a pioneer one.

In spite of my added doubts concerning infringement, I decided to submit the whole case to the jury in the hope that another trial could be avoided. If I directed a verdict in favor of the defendants and the Court of Appeals held that I should have submitted it to the jury, then all of the time, trouble and expense incurred in this trial would have been wasted; but if I permitted the jury to make a determination and the jury found in favor of the plaintiff, I could then set aside the verdict and the Appellate Court would merely be presented with the questions of validity and infringement and could reinstate the verdict if they thought that I had erred. Unfortunately, the verdict of [8] the jury does not make this possible. As I stated previously, there is no rational basis for the amount of damages fixed by the jury.

Even if this patent is valid and infringed, it was a minor improvement in a crowded field, and in my view a royalty of 3 per cent on the selling price or 5 per cent on the manufacturer's price is completely out of line. In addition to a few licensing agreements, none of which showed such a high rate, the only other evidence was the testimony of Mr.

Parker based upon a hypothetical question, which assumed that the patent in suit was a pioneer patent or one that had made a long stride in the refrigeration art.

An examination of the file wrappers of the original patent, as well as the patent in suit, clearly showed that this was not the case.

I appreciate the fact that the jury made specific findings, which are contrary to those expressed in this opinion. In spite of my strong attachment to the right of trial by jury, I cannot avoid the responsibility which is mine merely because a jury found to the contrary.

Judge Bone, in *Berkeley Pump Co. v. Jacuzzi Bros.*, 214 F. (2d) 785, beginning at Page 791, clearly sets out the obligation of a trial judge in cases in which "the jury has departed from the relevant legal criteria by [9] which either a jury or a judge must be guided in their or his fact-finding function."

I think that this jury listened carefully to the evidence and tried to render an honest and intelligent opinion. In spite of the attempts of plaintiff's counsel to inject prejudice into the case, I think he was unsuccessful, and I think that the action which I took during the trial and in my instructions to dissipate any such feeling was successful. However, I think that the fault lies in the manner in which the case was presented by the defendants.

At no time was the jury adequately informed of defendants' contentions. The jury, after listening

to defendants' opening statement, must have come to the conclusion that the defendants were trying to withhold information from them. The witnesses were examined by defendants' counsel not with the view of convincing a jury, but solely for the purpose of appealing to the Court. It was a highly technical presentation, and the closing argument of counsel for the defendants can only be characterized as fantastic. I did not understand the "frost, defrost" argument which took up a large portion of time consumed by the defendants, and I am sure that the jury did not have the vaguest idea of what counsel was talking about.

However, I cannot permit a judgment on liability [10] or a judgment on damages to stand where there is no basis therefor. Neither the good intentions of juries nor the ineptness of lawyers is an adequate substitute for evidence.

As an equitable defense, the defendants have raised the question of unclean hands. It may very well be that the manner in which this case is being financed is a violation of New York law. I am also concerned about the scores of people who, according to Mr. Potter, are now contributing and who over a period of years have contributed over a Million Dollars to him and his companies in connection with the prosecution of this patent and this litigation. However, I do not believe that these facts justify a holding of unclean hands.

I merely add that it was primarily because of

these people that I did not direct a verdict earlier.

Counsel for the defendants may submit an order in accordance with this oral opinion, which will be transcribed and included in the file of this case and in any transcript that is sent to the Court of Appeals so that the Court of Appeals will know the reasons which motivated me to enter a judgment in favor of the defendants.

That is my opinion and my ruling.

Mr. Cuninghame: If your Honor please, in all deference, I do want to note on the record a serious objection to the statement contained in your Honor's opinion that I or anyone [11] on this side consciously endeavored to insert any prejudice in the case or did insert any prejudice in the case.

The Court: I have no reason to change any statement that I have made. I mentioned most of the things which I thought were prejudicial outside the presence of the jury. Only once did I call to the attention of the jury acts which I thought were prejudicial, and then I thought it was necessary because your remarks urgently required some action.

Mr. Cuninghame: May I ask what those are, sir?

The Court: Mr. Cuninghame, you are never satisfied with anything I ever say. In spite of the fact that I have tried time and again to be most generous with you and explain things to you in detail, no remarks of mine or no specificity on my part will ever convince you, and so I am not going to try this time.

I know that this case is going to be appealed to the Court of Appeals. It has always been my policy to co-operate in every way to see that a person gets a full and fair hearing before the Court of Appeals. I will make everything available to that Court which is within my power. I will give whatever extensions you need in order to adequately present your case. [12]

Mr. Kolisch: Defendants will submit an order in accordance with your opinion.

The Court: Very well.

Mr. Kolisch: Will it be necessary to have Findings of Fact and Conclusions?

The Court: No, I do not think that the Rules require it.

(Proceedings concluded.) [13]

[Title of District Court and Cause.]

United States of America,
District of Oregon—ss.

CERTIFICATE OF CLERK

I, R. DeMott, Clerk of the United States District Court for the District of Oregon, do hereby certify that the foregoing documents consisting of Complaint, Intervenor's Answer (Admiral Corporation); Intervenor's Answer (Amana Refrigeration)

tion, Inc.); Order Allowing Amendment of Answers; Order to Amend Complaint; Order Amending Answers; Amended Answer; Final Pretrial Order; Supplemental and Amended Complaint; Motion for a Directed Verdict; Special Interrogatories to the Jury; Verdict; Defendants Motion Notwithstanding the Verdict; Judgment in Favor of Defendants and Order Granting New Trial; Opinion of the Court on Defendants' Motion for Directed Verdict and Motion for Judgment Notwithstanding the Verdict; Notice of Appeal; Bond for Costs on Appeal; Order Extending Time to Docket Appeal; Statement of Points on Which Appellant Intends to Rely on Appeal; Designation of Contents of Record on Appeal; Order Extending Time to Docket Appeal; Defendants' Designation of Additional Portions of the Record on Appeal; Amendment to Plaintiff's Designation of Contents of Record on Appeal; and Transcript of Docket Entries Constitute the Record on Appeal from a Judgment of Said Court in a Cause Therein Numbered Civil 6016, in which Moist Cold Refrigerator Co., Inc., an Oregon corporation is the plaintiff and appellant and Lou Johnson Co., Inc., an Oregon corporation, et al, are the defendants and appellees; that the said record has been prepared by me in accordance with the designations of contents of record on appeal filed by the appellant and the appellees, and in accordance with the rules of this Court.

I further certify that the cost of filing the notice of appeal, \$5.00 has been paid by the appellant.

In testimony whereof I have hereunto set my hand and affixed the seal of said Court in Portland, in said District, this 2nd day of March, 1956.

[Seal]

R. DE MOTT,
Clerk.

By /s/ F. L. BUCK,
Chief Deputy.

[Endorsed]: No. 15057. United States Court of Appeals for the Ninth Circuit. Moist Cold Refrigerator Co., Inc., a Corporation, Appellant, vs. Lou Johnson Co., Inc., a Corporation, Meier & Frank Company, Inc., a Corporation, Admiral Corporation, a Corporation, and Amana Refrigeration, Inc., a Corporation, Appellees. Transcript of Record. Appeal from the United States District Court for the District of Oregon.

Filed March 7, 1956.

/s/ PAUL P. O'BRIEN,

Clerk of the United States Court of Appeals for the Ninth District.

In the United States Court of Appeals
For the Ninth Circuit

Appeal No. 15057

On Appeal from the Decision of the United States
District Court for the District of Oregon in
Civil Action No. 6016

MOIST COLD REFRIGERATOR CO., INC., an
Oregon Corporation,

Plaintiff-Appellant,

vs.

LOU JOHNSON CO., INC., an Oregon Corpora-
tion,

Defendant-Appellee,

and

MEIER & FRANK COMPANY, INC., an Oregon
Corporation,

Defendant-Appellee,

and

ADMIRAL CORPORATION, a Delaware Corpo-
ration,

Defendant-Intervener-Appellee,

and

AMANA REFRIGERATION, INC., an Iowa Cor-
poration,

Defendant-Intervener-Appellee.

STATEMENT OF POINTS ON APPEAL

Comes now the appellant, Moist Cold Refrigerator Co., Inc., and pursuant to the rules of this

Court, hereby adopts as its statement of points on appeal Statement of Points filed in the District Court on February 15, 1956, and designates the following parts of the record in this action to be material and to be printed.

BUCKHORN AND
CHEATHAM,

By /s/ KENNETH S. KLARQUIST,
Attorneys for
Plaintiff-Appellant.

Dated: March 8, 1956.

Affidavit of service by mail attached.

[Endorsed]: Filed March 9, 1956.

[Title of Court of Appeals and Cause.]

No. 15057

On Appeal from the Decision of the United States
District Court for the District of Oregon in
Civil Action No. 6016

DESIGNATION OF MATERIAL
DOCUMENTARY EXHIBITS

Comes now appellant, Moist Cold Refrigerator Co., Inc., and pursuant to the rules of this Court, designates the following documentary exhibits to be material and asks that they be treated as physical exhibits to avoid the expense of reproduction of the same:

(a) Plaintiff's Exhibits 1, 2A, 2B, 3D, 3E, 3F, 3G, 3H, 3I, 3J, 3L, 3M, 3N, 3O, 3P, 3Q, 3R, 3S, 3T,

3U, 3LL-1 through -51, 3MM, 3NN, 3OO, 3PP, 3QQ, 3RR, 3SS, 3TT, 3UU, 3VV, 3WW, 3YY, 3AAA, 3BBB, 3CCC, 3DDD, 3EEE, 3EEE-1-2-3-4, 3GGG, 3KKK, 4A, 4B, 4C, 4D, 4AA, 4BB, 4CC-1 to and including -14, 4DD-1 to and including -11, 5A, 5B, 5C, 5D, 6T, 6U, 6V, 6W, 6X, 6Y, 6AA, 6DD, 6EE, 6FF, 6GG, 6HH, 6II, 6JJ, 6RR, 6SS, 6UU, 6XX, 6YY, 6ZZ, 6AAA, 6BBB-1-2-3, 6KKKK, 8A, 9A, 17, 19CC, 19S and 22.

(b) Defendants' Exhibits 105, 106, 107, 108, 109, 110, 111, 112, 113, 144M, 120A, 120B.

BUCKHORN AND
CHEATHAM,

By /s/ KENNETH S. KLARQUIST,
Attorneys for
Plaintiff-Appellant.

Dated: March 8, 1956.

Affidavit of service by mail attached.

[Endorsed]: Filed March 9, 1956.

[Title of Court of Appeals and Cause.]

COUNTERDESIGNATION OF
MATERIAL EXHIBITS

Come now appellees pursuant to the rules of this Court and designate the following additional parts of the record as being material to the consideration of the appeal herein:

Plaintiff's Exhibits 16A and 16B.

Defendants' Exhibits 101, 102, 114A through

114L, 114N through 114R, 115, 116, 117, 117A, 118, 119A, 119B and 119C.

RAMSEY AND KOLISCH,

By /s/ J. PIERRE KOLISCH,

Attorneys for

Defendants-Appellees.

Dated: March 15, 1956.

Affidavit of service by mail attached.

[Endorsed]: Filed March 16, 1956.

[Title of District Court and Cause.]

COUNTERDESIGNATION OF
RECORD FOR PRINTING

Come now appellees pursuant to the rules of this Court and designate the following additional parts of the record in accordance with Rule 7(7) of the rules of this Court:

Plaintiff's Exhibits 1 and 2A.

Defendants' Exhibits 105 through 113.

Item 5, appellant's designation of record for printing, should be corrected to paragraph 9(n).

RAMSEY AND KOLISCH,

By /s/ J. PIERRE KOLISCH,

Attorneys for

Defendants-Appellees.

Dated: March 15, 1956.

Affidavit of service by mail attached.

[Endorsed]: Filed March 16, 1956.

United States Court of Appeals

FOR THE NINTH CIRCUIT

No. 15,057

MOIST COLD REFRIGERATOR CO., INC., a corporation,
Appellant,
vs.

ADMIRAL CORPORATION, a corporation, and
AMANA REFRIGERATION, INC., a corporation,
Appellees.

PLAINTIFF-APPELLANT'S BRIEF

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August 1956

FILED

AUG 14 1956

PAUL P. O'BRIEN, CLERK

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United States Court of Appeals

FOR THE NINTH CIRCUIT

No. 15,057

MOIST COLD REFRIGERATOR Co., INC., a corporation,
Appellant,
vs.

ADMIRAL CORPORATION, a corporation, and
AMANA REFRIGERATION, INC., a corporation,
Appellees.

PLAINTIFF-APPELLANT'S BRIEF

This is the second appeal in this action for patent infringement. The former appeal (No. 13,811) was also from a final judgment of dismissal by the same trial Judge on defendants' motion for summary judgment of segregated issues. This Court reversed, 217 F. 2d 39, *certiorari* was denied, 348 U. S. 952, and the remaining issues (presumably only those involving issues of fact) were tried before a jury in November 1955.

A general verdict (R. 65b, 66) with answers (R. 65a-b) to special interrogatories, was returned Friday, December 2, 1955, upholding the patent as valid and infringed and awarding damages. On Monday, December 5, 1955, the Judge, without reading plaintiff's memorandum (R. 1499), delivered an oral opinion granting judgment *non obstante veredicto* and, on his own motion, provided for a new trial, should there be another reversal by this Court. (R. 72 *et seq.*, R. 1498 *et seq.*)

This brief is submitted by plaintiff-appellant in support of its appeal that this Court reverse and direct reinstatement of the jury's verdict.

Statement of Pleadings and Facts

The jurisdiction of the District Court (Complaint R. 3) is based on 28 USC §1338.

This Court's jurisdiction to review the final judgment dismissing the complaint and ordering a new trial, in the event of a reversal of said judgment (R. 70, 71), arises under 28 USC §1291.

The complaint as supplemented and amended seeks damages against defendants Admiral Corporation and Amana Refrigeration, Inc., for infringement of Reissue patent No. 23,058 (herein called variously "patent in suit" or "Potter patent") covering a household refrigerator structure. Defendants interposed numerous defenses, of which the trial Judge has sustained only two; namely, invalidity and no-infringement. In this brief we shall deal only with the defenses in so far as upheld by the Judge below. Should defendants here rely on any other asserted defenses, we shall treat them in our Reply brief.

The trial Judge held, in his oral opinion, that there was no "basis" (R. 78) for the jury's factual findings (necessarily implied by its verdict): to wit, that the patent in suit was valid; that it was infringed by defendants' accused devices; and that the damages in the form of reasonable royalty were in the amount returned. The case boils down, therefore, to a single question of law: were said jury findings supported by substantial evidence? *Hansen v. Safeway Stores*, F. 2d, 110 USPQ 170 (9 Cir. June 27, 1956).

The mechanical household refrigerator in common use for many years had serious defects. It (a) dried out the foods stored therein, making them less palatable; (b) caused

the transfer of odors from one food to another; (c) required frequent disconnection from the power circuit to allow accumulated ice on the chilling element to melt off; and (d) contained no provision for maintaining certain desired foods in uninterrupted frozen condition.

The fundamental principle of the mechanical refrigerator involves the circulation of a volatile fluid through a closed circuit, which is caused alternately to liquefy in an external condenser and then to evaporate into a gas in the chilling element located in the food chamber. In the prior conventional household refrigerator, the same freezing element such as an expansion coil served both to freeze the ice cubes and to cool the food compartment, the common arrangement being to wrap the coils around the small ice tray chamber located in the top of the food chamber, the exterior of the coils being exposed to the air of the food chamber. Because the coils had to freeze water in the ice trays, the surface temperature of the coils was considerably below 32° F.

It is an inherent characteristic of air that its capacity for retaining moisture varies with its temperature. For example, air which is at a temperature of 40° F. and a relative humidity of 85% contains 85% of the maximum moisture possible before precipitation would occur at that temperature. If the temperature of the same air is now lowered, its capacity for retaining moisture is reduced, and before it reaches the freezing temperature of 32° F. the relative humidity will exceed 100% and moisture will be condensed and precipitated out of the air.

Accordingly as the air in conventional refrigerators came in contact with the freezing coil, its temperature was sharply lowered and, as the point of 100% relative humidity was reached, the excess moisture condensed out and collected as ice or frost on the coil. The cooled heavier air settled to the bottom of the chamber, forcing the warmer lighter air up into contact with the coil, which in turn

deposited a portion of its moisture on said coil. The air which had lost moisture and settled down to the bottom became relatively dry as it warmed up to the general temperature of 40 to 50 degrees in the food compartment, and accordingly had a capacity for again picking up moisture from the food, since its relative humidity at this temperature would be about 30%. The general result was a pumping of the moisture out of the foods and its accumulation as ice on the coil. Moisture drawn from a particular food included odors and flavors which would come in contact with other foods, resulting in a mingling and transfer of odors from one food to another.

The collection of frost on the coil not only impoverished the food in the storage chamber of the desired moisture content but also, because of the insulating character of the ice film, reduced the efficiency of the machine as a whole and increased power consumption and operating cost and made it necessary frequently to disconnect the power and permit the compartment to warm up and defrost. In the defrosting period the foods in the box would be warmed up, with a consequent tendency to spoil. Such types and small quantities of food as might have been frozen in the ice trays were thawed out. But to preserve food in frozen storage, it must remain frozen continuously.

Heat flows naturally from a higher temperature to a lower temperature. The chilling substance is called the refrigerant. Various substances had been explored for their characteristic advantages and disadvantages as refrigerants. Even cooled air has been taught as a refrigerant, acting by itself (D. Ex. 110, p. 3, ll. 90-106) and also acting with another, a volatile, refrigerant (D. Ex. 101, Re 17,078). But the commonly used refrigerants in electric refrigeration are volatile refrigerants; namely, liquids that become a gas or "evaporate" at a relatively low temperature thereby absorbing much heat. The gas is then recondensed into liquid for reuse. There is no evidence that a refrigerating structure utilizing air as a refrigerant, with or without

a volatile refrigerant, can be made to operate efficiently, either for commercial or household use. In any event, structure and functioning are very different when a volatile refrigerant is used as the only refrigerant.

The volatile refrigerant has been chiefly used in two different types of refrigerator, classified according to whether or not the evaporating temperature of the refrigerant is under fixed pressure control. In the flooded or float valve system the evaporating temperature of the refrigerant is not fixed and therefore varies over a range of evaporating temperatures. This range is limited only by a thermostat, or some equivalent temperature device, controlling the circulation of the refrigerant. In contrast to this flooded or float valve system there is the direct expansion system used in the patent and defendants' accused devices in which the evaporating temperature of the refrigerant is kept constant by a pressure control device such as an expansion valve or its equivalent a capillary tube. The thermostat controlling the cycling of the refrigerant does not affect the evaporating temperature of the refrigerant in the direct expansion system.

We therefore shall concentrate further discussion on the direct expansion refrigerating structures using only volatile refrigerant.

The Potter patent (original of which was filed February 16, 1931, granted October 6, 1936) states:

"The main object of this invention is the design of a refrigerator which will make it possible at one and the same time and over long or short periods of time to perform several highly desirable tasks, namely, to form ice or freeze desserts quickly, to provide cold storage for frozen meat and food stuffs, and to provide storage for food at temperatures above freezing" (p. 1, col. 1, lines 4-11).

* * * *

“The seventh object is to eliminate completely all defrosting and objectionable drying out of the foods” (p. 1, col. 1, lines 36-8).

With further reference to frozen foods, it is stated:

“* * * a refrigerator which must be periodically defrosted is unsuitable for the preservation of this class of food” (p. 1, col. 1, line 55; col. 2, lines 1-2).

The refrigerator contains two large food compartments insulated from each other, comprising an upper compartment 14 for the storage of foods in an atmosphere at about “forty degrees” (patent, p. 2, col. 3, line 29) with a high humidity, and a lower compartment at freezing temperature which is divided by a vertical metal wall into a chamber 12 for ice trays and a chamber 13 for frozen foods. A bottom compartment 11 contains the compressor, condenser and related mechanism.

Liquid refrigerant flows through pipe 24 and expansion valve 23 into the “freezing coil” 22 immersed in a brine tank. The expanded refrigerant is now at a low pressure and a corresponding sharply lower temperature approximating zero, the absorption of heat freezing the cubes in the trays in chamber 12 and through the thin metal wall to cool chamber 13 to below freezing temperatures.

The refrigerant, which is now a mixture of liquid and gas, continues from coil 22 into a cooling coil 25 located in the upper large compartment, where in absorbing further heat the remaining liquid is vaporized and the gas proceeds through pipe 26 to the compressor. The relatively large extended surface on coil 25 draws heat from the surrounding air and delivers it to the refrigerant inside the coil at a sufficiently rapid rate so that the compartment temperature is reduced to its desired level without allowing the cooling coil temperature to get so low as to accumu-

late and freeze moisture, and thus dehydrate fresh foods stored in the cooling compartment.

As is readily apparent in the drawings, the insulation for the lower freezing compartment is about twice as thick as that for the upper cooling compartment. A thermostat 31 for controlling the compressor is responsive to the coil 25 in the upper compartment. The upper compartment, having thinner insulation, will then warm up faster and will operate the thermostat to call for cooling before the less critical frozen food compartment will warm up above freezing (patent, p. 3, col. 5, lines 22-35).

Following the general description, the results and advantages are summed up in the patent as follows:

“From the foregoing it will be seen that there is provided a refrigerator having a non-frosting food storage compartment in which food may be held at desirable temperatures without undue evaporation. Secondly, that quick freezing for ice and desserts is ever available. Thirdly, that there is provided uninterrupted cold storage at freezing temperatures, and lastly, that the necessity for regulating the control system is entirely eliminated since a wide range of temperatures is provided simultaneously, and further, that not only is the necessity for defrosting eliminated entirely, but also the evaporation of the food stuffs is reduced to a minimum” (p. 3, col. 5, lines 53-66).

Such combination had a new law of organization and operation all its own, producing a new, unusual, and long desired result in a manner fully described in the specification, and precisely defined by the claims.

To avoid prolix duplication, the evidence pertinent to those jury findings which were set aside by the District Court is presented in detail in the Argument section and incorporated into the present section of the brief by reference.

Statement of the Case, The Questions Involved and The Manner in Which They Are Raised

This case was duly tried before a jury in the United States District Court for the District of Oregon, before SOLOMON, *J.* The jury returned a general verdict for plaintiff (R. 65b, 66) and answered all special interrogatories favorably to plaintiff (R. 65 a, 65 b). The Court entered judgment n.o.v. for the defendants and, without any motion by defendants, an order for new trial in the event of reversal of the judgment n.o.v. (R. 70-1). The District Court's oral opinion was included in the appeal Record (R. 72-78 and 1497-1506) by direction of the trial Judge "so that the Court of Appeals will know the reasons which motivated me to enter a judgment in favor of the defendants" (R. 78, 1506). Doubtless, the trial Judge used the word "judgment" here to include both the judgment n.o.v. and the order for a new trial, contained in a single document, since the oral opinion, as transcribed, gives his grounds for both and such document was drafted to carry out the holdings of the opinion (R. 1507).

The trial Judge's said grounds were that there was no substantial evidence to support the following jury findings of fact, all of which were (among others) necessarily involved in the general verdict for the plaintiff:

- I. With respect to validity of the patent in suit:
 - A. The invention of the patent satisfied applicable "standards of invention" (R. 72-74);
 - B. The specification of the patent in suit made the disclosure required by the Patent Law, 35 U.S.C.A. §112, concerning "the existence of a fin coil or other extended surface coil" (R. 74);
 - C. The "claims were sufficiently definite to satisfy the statute" (R. 74).

II. With respect to infringement by means of the accused devices:

- A. Whether or not "they were cold-wall refrigerators as distinguished from the fin-type", the accused structures infringed the claims of the patent in suit (R. 75);
- B. The accused structures had "a single liquefying unit" of the kind defined in the claims of the patent in suit (R. 75);

III. With respect to damages:

"3 per cent on the [resale] selling price or 5 per cent on the manufacturer's price" of the infringing devices sold by defendants is a reasonable royalty under the patent in suit (R. 76).

The basic questions involved are whether the trial Judge erred in holding that there was no substantial evidence to support the aforesaid enumerated factual findings underlying the verdict of the jury.

Should the above questions be resolved in favor of the jury's findings, two additional questions are raised, both with respect to issues not submitted to the jury; namely, did the trial Judge err in refusing to find as follows:

- IV. Defendant Admiral's infringement was wilful and deliberate, justifying multiple damages against it (R. 5);
- V. Defendants exercised delay and bad faith in the course of defending the action, justifying an award to plaintiff of costs and reasonable attorneys' fees (R. 5).

On these two questions, evidence (R. 1076-1144) not before the jury should be considered.

The questions are raised by notice of appeal from the judgment and order, duly served and filed (R. 79).

Specification of Errors Relied Upon*

The trial Judge erred:

1. In holding that there was not substantial evidence to support each of the jury findings specified in the previous section of this brief (I-III, *supra*). The evidence and the applicable authorities overwhelmingly support the jury's verdict and show that the trial Judge erred as a matter of law in entering judgment n.o.v. and in directing a new trial in the event of reversal of said judgment. Such error of law included abuse of discretion.

2. In failing to find for plaintiff on the two issues specified in the previous section of this brief (IV, V, *supra*), to be decided not by the jury, but by the court.

* Plaintiff's detailed Statement of Points required to be printed in the record appears at R. 80-84. For purposes of clarity and conciseness, the Argument is organized according to the classification set forth in the previous section of this Brief.

SUMMARY OF ARGUMENT

I

A. The invention of the patent in suit satisfied the applicable standards of invention. We show this by citing the pertinent evidence, all of which was ignored in the opinion below; and by applying to the invention the standards of invention laid down in the authorities—both, the standards mentioned by the trial Judge and the significant ones he overlooked.

For a long time before 1930 the refrigeration industry recognized an important practical and perplexing problem: how to devise a unitary machine—using volatile refrigerant, only, under fixed pressure control—to provide the householder, simultaneously and uninterruptedly, with two kinds of incompatible refrigeration; namely, (1) *dry* freezing and (2) *moist* cold. The prior art, represented in the record by patents and the actual practices of the industry, demonstrates the prior unsuccessful attempts to solve this problem. The Potter patent finally solved the problem by teaching a new type of household refrigerator. The industry and the public promptly recognized it as an important, new development, and adopted it as a new, standard type of dual-climate refrigerator, known in the industry as the “Moist Cold” refrigerator.

Detailed analysis of the patent demonstrates that: the combination had a new and useful function or operation; elements had, in the combination, a different and added function than out of it, with unusual or surprising, and highly beneficial, consequences; and the thing patented was a single device, incapable of separation or division. Patentable invention is demonstrated by the facts of history. Other skilled workers in the art with the same well known tools at hand tried and failed to solve that very problem which the patent in suit solved. The presumption of patentability from issuance and reissuance has

here been strengthened by the adjudication in the Stewart-Warner case over the most pertinent art cited here. The trial Judge did not resolve all conflicts, and draw all inferences, favorable to the patent, which the jury's verdict for plaintiff required him to do.

B. The specification of the Potter patent made the required disclosure. Here, again, the Judge below disregarded the evidence and the patent law. The specification clearly disclosed, for the moist cold compartment, the use of a refrigerant-carrying coil with heat-withdrawing extensions, always above 32° F.; i.e. a non-frosting coil. The description in the specification, aided by the showing in the drawings, has had the administrative approval of the Patent office twice; and the competent opinion of an admittedly qualified patent expert was credited by the jury on this point.

C. The patent claims satisfied the requirement of definiteness. Judge Solomon expressed here a mere, completely unparticularized "doubt" whether the claims were sufficiently definite. This flies squarely in the face of the presumption of proper form of claims passed upon by the Patent office experts and the clear interpretation by the plaintiff's patent expert, accepted as correct by the jury.

II

With respect to the two particulars on infringement, discussed by the trial Judge, the Judge's statements of fact are unsupported by the record. But, further, granting them *arguendo*, they do not lead to his conclusion of no-infringement.

A. The claims of the patent in suit read squarely on the accused devices, which have a cold wall, since that cold wall is merely a fin or other heat-withdrawing surface for a volatile refrigerant-conveying coil. The claims are not

limited to any particular kind of heat-withdrawing surface for such coil.

B. The accused structures have only a "single liquefying unit", as called for by the patent claims. (A liquefying unit condenses refrigerant evaporated by *extracting* heat.) Defendants' devices both have, indisputably, only a "single liquefying unit" of the kind defined in the claims of the patent in suit; namely, one which condenses the refrigerant conveyed by their *two* primary series coils, for, respectively, the freezing and the moist cold compartments.

III

Coming to the reasonable royalty fixed by the jury, as damages for infringement, we demonstrate, from the evidence and the authorities, that the trial Judge applied erroneous rules to measure the fair value of the patent. Thus he arbitrarily held that, what he called a "minor" patent, could not be worth 3 per cent of the resale price of the accused devices (5 per cent on manufacturer's price). He arbitrarily substituted his opinion for that of the jury as to the importance of the patent. He ignored the record, including the supported and uncontested opinion of the only expert who testified on the matter and who recommended a royalty rate twice that found by the jury. He confused the *technical* status of the patent in the art with its real *commercial* value. He refused to consider the invention of a standard new type of household refrigerator. He failed to place the burden on the infringing defendants as wrongdoers. The jury's verdict as to a reasonable royalty rate, far from shocking the judicial conscience, was *less* than was warranted by the proof and analogous decisions.

IV

Defendant Admiral's infringement was wilful. Damages against it should therefore have been trebled by the trial court.

V

Similarly, because defendants practiced delay and bad faith in defending the suit, they should have been required to pay costs and reasonable attorneys' fees.

Finally, the gratuitous direction for a new trial, just like the judgment n.o.v., was grounded, as the opinion below plainly shows, *solely* on rulings of law. Since these were "plainly erroneous" (Rule 52a), the order for a new trial, as well as the judgment n.o.v., should be reversed. If the order is assumed, *arguendo*, to have been based on discretion, that discretion was plainly abused, for: this is the second jury vindicating the patent against Admiral (and Admiral's predecessor); the Judge ruled that the trial was full and fair and that the verdict did not reflect prejudice by the jury; and the evidence *overwhelmingly* supports the verdict. Such abuse of discretion is, in itself, reversible error of law.

In short: the verdict for the plaintiff should be reinstated, with treble damages against Admiral and costs against both, to include attorneys' fees.

ARGUMENT

I. THE VALIDITY OF THE PATENT IN SUIT IS CLEARLY ESTABLISHED, UNDER THE GOVERNING AUTHORITIES, BY SUBSTANTIAL EVIDENCE.

A. The Invention of the Patent in Suit Satisfied the Applicable "Standards of Invention".

The patent in suit (Re. 23,058), relates generally to the art of refrigeration and particularly to a new household refrigerator structure. Each element in the combination was old in the art. As said in *Philip D. Hunt v. Malinckrodt*, 177 F. 2d 583, 585 (C.A. 2, 1949) "almost all inventions are combinations of old elements whose selection as a new unit gives them their only importance."

Pursuant to the trial Judge's instructions on the law, the jury found, by its verdict for the plaintiff, that the Potter patent, in respect to all its four claims to invention, satisfied the "standards of invention" laid down in the authorities. Additionally, the jury found, in response to special interrogatories (R. 65 a, 65 b), that the Potter patent combination did (a) "produce some new and different function, one that has unusual or surprising consequences"; that it constituted (b) "invention over the Anderson patent"; and it constituted (c) "invention over what is shown in the Anderson patent plus the Larkin patent". Defendants conceded that there was no patent closer to the patent in suit than Anderson (R. 1338). The evidence showing invention over Anderson is clear and is set forth below (p. 20). It is undisputed that the Larkin patent combination was of the flooded or float valve type (*supra* p. 5); it operated on an altogether different principle than the Potter patent, was an entirely different structure and also did not produce the results of the patent in suit. But one of the elements in the Larkin combination was a finned coil, old in the refrigeration art. It was to this that the special interroga-

tory referred. A finned coil is only one example of an extended surface coil of which there are a number of examples, all old in the art. The combination of the Potter patent is not limited to any particular type of surface on a coil; such as fin, brine tank, etc. The jury's affirmative answer was a finding that the Potter combination constituted an inventive advance over the Anderson patent and the prior existence in the art of coils with extended surfaces. This finding is fully supported by the evidence set forth below (pp. 16-30).

In his oral opinion setting aside the verdict, Judge Solomon did not discuss or even refer to the evidence in the record bearing on the real invention. Parenthetically, it may be noted that he did not question the utility or operativeness of the combination and he did not sustain the technical defense of anticipation or lack of novelty. He merely listed the elements of the combination and forthwith stated his naked, ultimate conclusion that the combination did not satisfy the standards of invention which he specified (R. 73). The evidence before the jury, which was ignored in the lower court's opinion, plainly demonstrates invention, not only under the statutory standard and the governing authorities, but even under the trial Judge's inadequate statement of the rule.

We shall first set forth the evidence, and then consider the standards of invention in their application to the Potter patent.

1. THE EVIDENCE SHOWING INVENTION

The invention of the Potter patent founded a new type of household refrigerator. It promptly became and has now long been a standard recognized "Moist Cold" type (Siragusa R. 1026) in the industry. It contributed a new structure having a new mode of operation and function, for which defendants and society at large are truly indebted.

For the first time it met all the conflicting requirements of food preservation in the home in a practical commercial way.

The discussion of evidence supporting all this is grouped under the following headings: (a) the householder's need and the industry wide problem which the invention solved; (b) the prior state of the art—prior attempts to satisfy that need by different and less practical means are shown by the record; (c) the advance made by the patent in suit; and (d) the impact on the public and the industry.

a. the householder's refrigeration needs and the industry-wide problem which the invention solved

The householder needs ice cubes for iced drinks, a means for sharp freezing certain foods, and a means for maintaining certain foods in frozen condition for extended periods prior to use. Structures like ice cream cabinets which provided below-freezing temperatures were in 1930 old in the art; by the use of various well-known means they maintained on the heat withdrawing surfaces, which were exposed to the air in the compartment's space, a temperature substantially below 32° Fahrenheit. At this below-freezing heat-withdrawing temperature, the air in the compartment drops below 32° F. and so freezes the contents stored therein.

The householder also needed a means for preserving certain moisture-containing foods, such as fresh meats, fruit and vegetables. The temperature of the air surrounding such foods should be low enough to inhibit bacterial and mold growth. But the lower said temperature goes, the lower becomes the temperature of the food. As temperature goes down, moisture is given up. At a heat-withdrawing surface temperature below 32° Fahrenheit moisture precipitates on the surfaces in the form of frost. Moreover, even if the air in the compartment is prevented from

falling to 32° F. by means of a thermostat, for example, the undesirable moisture-drawing effect and undesirable frosting of the heat-withdrawing surfaces both occur when the temperature of those surfaces is below 32° F. For fresh foods and the like, then, the need was for maintaining a low but above-freezing temperature at the heat-conducting surfaces intermediate the cooling refrigerant and the air in the compartment. This gives a low enough temperature of the air and food to inhibit bacteria and mold, without drawing excessive moisture from the air and food in the compartment. A compartment temperature of about 40° Fahrenheit satisfied this joint requirement for the proper storage of moisture-containing foods. Structures like special purpose cabinets which could satisfy such need were also old in the art in 1930; by various well-known means they maintained both at the heat-withdrawing surface and in the air of the compartment's space, a low temperature but above 32° Fahrenheit.

The two sets of needs, viz (1) refrigeration of frozen foods (including ice-cubes) and (2) refrigeration of moisture-containing foods, involved incompatible requirements. Well below 32° F. on the heat-exchange surface was needed for ice-cubes, sharp freezing, and maintenance of frozen foods, but it caused dehydration of moisture-containing foods. This then was for a long period the practical problem in the industry: devising a unitary machine to provide simultaneously for both kinds of refrigeration, namely, (1) freezing and (2) moist cold. This was the householders' refrigeration need.

Said need constituted a recognized, industry-wide problem (R. 643 *et seq.*, particularly 654; R. 704-706). All the large electric refrigerator manufacturers united for their common purpose of advancing electric refrigeration in the home and replacing the old ice boxes. The Food Preservation Council of America was formed in 1927. Plaintiff's witness Zimmerman, its first president (R. 704-6), testified

that humidity control was "definitely" a problem of the dry cold electric refrigerator manufacturers (R. 706) led by his company, General Electric and by Frigidaire. He later became vice-president of Norge (1937-9) and of Chrysler (1941-5) refrigeration and was and is a wholly disinterested witness. Quinn (R. 643-701) testified that Frigidaire was five years ahead of G.E. in 1925 (R. 655) and that it, too, had a large research staff, as did Kelvinator (R. 659), the third largest electric refrigerator manufacturer in those days (as indeed today). As vice-president, in charge of the refrigeration department of G.E., he used to discuss this food dehydration problem with the heads of these other companies. He said (R. 654) that the "whole industry" had this serious problem.

Said householder need and industry-wide problem was not effectively met and solved by the prior art.

b. the prior state of the art—the prior attempts by different and less practical means to satisfy that need as shown by the record

The invention of the patent in suit was conceived and reduced to practice by late 1929 or early 1930. The prior state of the art is shown in the record by patents issued two years before the filing date and by the then-current actual practices of the refrigeration industry. The prior art had not solved the problem.

The undisputed and decisive fact is that nowhere in the prior art, whether in the patents issued before the invention or in the contemporaneous actual practice, is there taught a unitary, direct expansion machine by which a single volatile refrigerant provides, at the heat-exchange surfaces, simultaneously and uninterruptedly, both below 32° F. and above 32° F. temperatures. The important need in household refrigeration—a single machine using volatile refrigerant, to provide simultaneous and continuous dry cold below-32° F. and moist-cold, above-32° F. temperatures—

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had not been filled prior to the invention of the Potter patent.

Defendants do not cite any prior patent which even purports to teach a direct expansion machine, operating on one volatile refrigerant, that maintains at all times two different heat-exchange surface temperatures, one below and the other above 32° F. They cite the Anderson patent as the closest to the patent in suit (R. 1338). The Anderson patent is in evidence (D. Ex. 105); there is just nothing in it that teaches simultaneous and continuous maintenance of different temperatures, below and above 32° F., *at the heat-exchange surfaces*, where the heat transfer is effected from the compartment (air and food) to the refrigerant. In Anderson, the heat-exchange surfaces in *both* compartments are necessarily at a temperature below 32° F. (R. 623-6; 825-6; 866-9; 1243-4). Thus moisture-containing foods will lose moisture, and the heat-exchange surfaces gather frost, so long as the Anderson machine continues to circulate refrigerant.

Neither do defendants cite any prior art practice of a unitary, direct expansion machine by which volatile refrigerant alone is circulated to maintain both above-32° F. and below-32° F. temperatures on different heat-exchange surfaces, at all times.

Indeed, the record shows affirmatively that in the actual practice before the invention in suit, household refrigerators did not provide, simultaneously and uninterruptedly, both below-freezing and moist-cold temperatures. The conventional household refrigerators *on the market* in 1930 and before circulated volatile refrigerant so as to obtain *not two, but only one, temperature at the heat-exchange surface*. That heat-exchange surface temperature was considerably below 32° F., in order to freeze ice-cubes. Thus, the household refrigerator in the actual commercial practice of the prior art fell far short of providing for important needs: it did not provide continuous temperatures needed for ice-cubes and frozen foods; it dried out moisture-con-

taining foods; its efficiency deteriorated as heat-exchange surface accumulated frost; and it required frequent manual defrosting by the housekeeper (R. 427-30; 515-9; 527-8). It also required a manual adjustment of the thermostat to take care of faster freezing, variable loads and changing seasons. It had the special hazard that, if set for faster freezing for ice cubes, and forgotten, as happened not uncommonly, it froze all the food in the refrigerator.

The large manufacturers adopted two devices which are significant as to the prior state of the art. Frigidaire placed in the conventional refrigerator the so-called "hydrator". This was nothing but a covered tray for moisture-containing foods. The cover retarded loss of moisture somewhat, but it accelerated spoilage by preventing air circulation in the tray (R. 526-9; 628; 654-60). General Electric for a short while promoted the sale of two refrigerators strapped together and placed on one set of legs; one refrigerator could be operated colder than the other (R. 664-5). But of course this was two machines, not one; and the basic requirement of simultaneous temperature operation of heat-exchange surfaces, one at above 32° F. and the other at below 32° F., was not met by either the Frigidaire or the General Electric makeshifts (R. 527-8; 654-60; 707-9; 716-21). That such devices were resorted to by leading manufacturers demonstrates that the problem was both acute and unsolved.

Frigidaire, General Electric, Kelvinator, Stewart-Warner, etc., had numerous refrigeration engineers as well as regular research laboratories (R. 527-9; 588; 659). Yet they did not produce any solution. The prior art, patents and practice, was silent on a unitary, volatile refrigerant direct expansion machine to provide, continuously and without interruption, below-freezing and moist-cold temperatures, both needed by the house-wife. Although those skilled in the art addressed themselves to the problem, years went by with no solution. *The actual facts of history*

demonstrate that the solution was far from "obvious" and required skill much above the "ordinary" skill in the art. The problem was solved, finally, toward the end of 1929 or the beginning of 1930, by the invention of the patent in suit.

c. the advance made by the patent in suit

The basic insight of the Potter patent is that a single practical mechanism of direct expansion type can be constructed to circulate a single volatile refrigerant which—although evaporating throughout at a *temperature below 32° F.*—*will nevertheless simultaneously and continuously maintain two heat-exchange surface temperatures, one below 32° F. and the other above 32° F.* This was done in the Potter patent combination by operating, simultaneously, and with a single volatile refrigerant device, two balanced and differently proportioned heat-exchange surfaces. Note that devices for circulating and evaporating volatile refrigerant were old in the art. Operating, with such devices, heat-exchange surfaces, at below 32° F., was old in the art, as in ice cream cabinets. Operating, with such devices, such heat-exchange surfaces, at above 32° F., was also old in the art, as in special purpose cabinets. But devising a unitary machine with such device, to operate simultaneously two balanced heat-exchange surfaces of differing proportions, one at below 32° F. (frosting) and the other at above 32° F. (non-frosting), was first taught by the patent in suit.

All claims of the patent in suit are for a unitary machine embodying this invention. It will suffice, here, to quote broadest claim 2:

“2. A household refrigerator which in normal operation provides above-freezing moist cold air for preserving in a refrigerated condition foods susceptible to moisture loss by evaporation and below-freezing dry cold air and a dry cold surface for preserving foods in a frozen condition, said refrigerator comprising”

(a) "a cabinet having a cooling compartment and a freezing compartment,"

(b) "thermal insulation around said compartments thermally insulating said compartments from each other and from the outside atmosphere,"

(c) "a cooling refrigerant expander having heat-conducting surfaces within said cooling compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature above 32° F. while withdrawing heat from said compartment, whereby air in said cooling compartment is cooled thereby to a temperature above 32° F. and is maintained at a humidity whose relative value is at least 100% at 32° F.,"

(d) "a freezing refrigerant expander having heat-conducting surfaces within said freezing compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature well below 32° F. while withdrawing heat from said compartment whereby air in said freezing compartment is cooled thereby to a temperature well below 32° F.,"

(e) "volatile refrigerant in said expanders,"

(f) "a single liquefying unit associated with said expanders and constructed and arranged to condense refrigerant expanded by heat extracted from both said compartments, the volatile refrigerant circulating through said expanders being the sole heat-extracting medium,"

(g) "and a thermostat responsive to the temperature in one of said compartments controlling the operation of said liquefying unit."

The claim is plain and readily understood. It defines a new combination of interrelated elements, each admittedly

old. The refrigerator combination comprises a cabinet or box. Within the cabinet are three compartments, two of which are differentially insulated: the first, uninsulated, contains the condensing unit; the second, called the freezing and cold storage compartment, is for ice cubes and frozen food; and the third, the cooling compartment, is for moisture-containing foods. The freezing compartment and the cooling compartment are cooled, each by a coil that carries the single volatile refrigerant, which evaporates throughout at the same temperature. Such a coil, with its heat-exchange surface, is called an "expander having heat-conducting surfaces". For the freezing compartment, the expander is constructed and operated to maintain its heat-exchange surface at well below 32° F. For the cooling compartment, the expander is constructed and operated to maintain its heat-exchange surface at above 32° F., so that the air in the cooling compartment is kept moist cold above 32° F. Both expanders are in series; that is, operated one following the other by means of a single duct on the direct expansion principle. That duct carries volatile refrigerant as the only medium extracting heat from both the freezing and cooling compartments. The heat changes the volatile refrigerant into gas which is recondensed into liquid to be reused in the circuit. A single liquefying unit performs said condensation. The liquefying unit is turned on and off by one thermostat which may be made sensitive either to the temperature in the freezing or to that in the cooling compartment (R. 757-778).

This was much more than merely putting together a dry cold box and a moist cold box. The Potter patent extracted heat from both compartments by the same volatile refrigerant evaporating at a well below freezing temperature and condensed by the same liquefying unit. The patent discloses heat-withdrawing surfaces in a direct expansion system in ratio, so that those of the cooling compartment will not collect frost, being always above 32° F. while those of the freezing compartment are always well below 32° F.

Cycling of the refrigerant is controlled by a thermostat responsive to temperature in either one of the compartments. This combination as a whole brought about, simultaneously and continuously, below-freezing in one compartment and moist cold in the other. The refrigerator of the Potter patent was a novel, unitary structure, a new combination of old, newly interrelated elements.

That the combination of the Potter patent is useful is indisputable on this record; and we submit that elementary analysis demonstrates that said combination performed a new function or operation. No previous unitary, volatile refrigerant machine of the direct expansion type had functioned or operated simultaneously at two maintained heat-exchange surface temperatures, one below 32° F. and the other above 32° F., thereby providing continuous freezing and continuous moist-cold, and without manual shut down of the machine for defrosting.

Likewise, we believe it evident that elements in the device performed an additional and different function than they performed out of it. The elements co-acted in the Potter combination to produce a new type of refrigerator. Never before, had an expander with heat-conducting surfaces always at well below 32° F. temperature and an expander with heat-conducting surfaces always at above 32° F. temperature been balanced to function or operate on a single, direct expansion system in a refrigerator. A single volatile refrigerant operates in the Potter patent combination, progressively, in two different expanders; one with above, the other with well below, freezing heat-withdrawing surface temperatures. Never before, had a single volatile refrigerant circuit so functioned or operated. Plainly, the elements in the combination of the Potter patent did act differently from their action in the past and the combination thus exceeded the sum of its parts.

Moreover, the patent taught, for the first time, a new composite control of the three variables which must be

correlated to get the balanced operation and long desired results needed under normal operating conditions. Fundamentally new operation and functioning were involved in the combination of devices to sense, control and bring about a *unitary* operation according to a balance of (1) compartment temperature (thermostat), (2) refrigerant temperature (expansion valve or other pressure control), and (3) freezing compartment dry cold and cooling compartment moist cold (heat exchange surface temperature). That unified, balanced operation of three coordinated controls was a vital additional and different function which was not present out of the combination, first taught by the patent in suit and precisely claimed therein. The combination of those three correlatives was, in a very real sense, a novel and highly inventive concept. As Judge L. Hand so aptly said in *Musher Foundation v. Alba Trading*, 150 F. 2d 885, 887, (2 Cir.), "The combination of two correlatives constitutes a single element * * *."

Furthermore, the combination has unusual or surprising consequences. In the Potter patent, the same volatile refrigerant, evaporating at a temperature below 32° F., nevertheless simultaneously and continuously maintains one heat-withdrawing surface at a temperature below-freezing and another such surface at above-freezing temperature. For the first time, the household was provided with a practical, fully-automatic, refrigerator giving both continuous freezing and continuous moist cold temperatures. Frozen food could be kept in frozen storage as long as desired; ice cubes need never melt; fresh meats, fruits, and vegetables and other foods could be refrigerated over long periods without dehydration and without undesirable changes in color, odor, and flavor; frequent periodical shut-downs to defrost were eliminated — all this in the most

efficient type of household refrigerator yet devised. These consequences were, we submit, most unusual and surprising in 1929 or early 1930, when the invention of the Potter patent was made.

So much for the advance in the art made by the invention defined in broad claim 2 of the Potter patent, claim 1 being in substance the same.

Claims 3 and 4, the remaining claims, are in substance the same as each other. In addition to all the elements of claims 1 and 2, each specifies two further limitations as follows: *first*, the thermostat (which in claims 1 and 2 may be made responsive to the temperature of either the freezing or the cooling compartments) is made responsive to the temperature of the cooling compartment, because the range of temperatures permissible in the cooling compartment is narrower, and so requiring more precise control, than that of the freezing compartment (patent P. Ex. 2, col. 4, lines 23-45); *second*, and to co-act with the thermostat, the thermal insulation (which in claims 1 and 2 may be equal for both compartments) is proportioned to offer less resistance to the flow of heat into the cooling compartment than into the freezing compartment. This assures starting of the liquefying unit, by heat flow into the cooling compartment, before the temperature of the freezing compartment approaches a non-freezing level (col. 5, lines 20-52, col. 9, lines 33-42).

Claims 3 and 4 thus define a preferred form of the broader combination defined in claims 1 and 2. So we need note here only the novelty of the features added to claims 1 and 2 by the subcombination of 3 and 4. These had a new and useful functioning or operation. Never before, in any refrigerator, had the temperatures of a freezing compartment and of a cooling compartment been kept at a *coordinated difference of level* by interrelating: (1) the proportionate amounts of insulation around each compartment, *with* (2) control of refrigerant circulation by the temperature of the cooling compartment. This coordinated

regulation provided an economical and efficient machine. Likewise, the elements had a different and additional performance or operation in the preferred form than out of it. Thinner insulation around the *cooling* compartment and control of temperature of said compartment had the novel function of controlling the temperature of the *freezing* compartment. Thus the preferred combination was itself more than the sum of its parts. Finally, the consequences of the preferred combination were surprising or unusual. The cooling compartment temperature, itself maintained at one range, helped maintain a different temperature range for the freezing compartment.

There resulted, from the combination defined by claims 1 or 2 and its preferred form in claims 3 or 4, a nicely balanced, efficient, automatic, all-purpose household refrigerator under interrelated and coordinated controls. The public and industry reaction to the Potter patent confirms the fact that it was an important advance in the art of household refrigeration, satisfying a long-felt need.

d. the impact on the public and the industry.

After many months of endless discussion and experimental work culminating about the end of 1929 or beginning of 1930, as testified to by the patentees with corroboration by several of their associates and employees (Bade, Herrmann, Bartlett, etc.), the first commercially saleable unitary two-humidity refrigerator, embodying the invention of the Potter patent, was constructed. It became known as the Barry refrigerator because it was sold to a Mr. Jack Barry in 1931. Next the "McChesney" refrigerator, from which the patent drawings were made, was built. Mr. McChesney testified to over 19 years of satisfactory service (1931-1950) by that original refrigerator, which is plaintiff's exhibit 11A.

The Potter Company moved to Buffalo and, prepared for national distribution, announced in February 1932, by

a 20-page spread in Refrigeration News (Ex. 3U), its new type of refrigerator.

The impact on the trade and public was impressive. There was no refrigerator like the Potter, on the market (Kobernuss, R. 426-7, Quinn, R. 652-663, Zimmerman, R. 704-711, Bartlett, R. 252, McChesney, R. 238). Hundreds were sold, mostly replacing, significantly, conventional dry cold refrigerators (Kobernuss, R. 434).

Bommer, the chief engineer of the then famous Jewett Company, designers of high quality special refrigerating equipment, left to become chief engineer of Potter because, to that experienced refrigeration designer, the potential of the invention warranted his doing so (R. 505).

Such large producers as Frigidaire and General Electric were sensitive to the Potter accomplishment. General Electric brought out the twin compressor unit idea in about 1933 (Quinn R. 664-5, Zimmerman R. 708-9), Frigidaire twice reissued its Gibson patent (not in the prior art) to get claims to frozen storage. This afterthought was obviously the result of the Potter activity, for Gibson refers to new developments in defendants' Ex. 118A at pp. 38-9, as then giving promise. Kelvinator also made abortive attempts at two climate food storage (Potter R. 338-341).

Hull and other authorities wrote of its promise. Even Muffly, defendants' expert witness, proclaimed in 1941 that "in a few years a refrigerator in which frost is visible when you open its outer door will look like an automobile with a starting crank hanging on the front" (R. 1341).

Quinn, the official in charge of refrigerators for General Electric at the time, testified (R. 659, 661-3) as to the dramatic effect on the large refrigerator manufacturers of the 1932 announcement of refrigerators made under the patent in suit. He said: "We all recognized" that if this fundamental solution of the dehydration problem had been in the hands of any one of the three leading manufacturers,

all would have had to adopt it. But because such a radical change would have increased costs "we thought the market was not ready" (R. 668-670).

Stewart-Warner, defendant Admiral's predecessor, came to Potter for a look at the then pending application for the original Potter patent under the pretense of taking a license. The patent files were not disclosed, but Potter did send the new, moist cold refrigerators to Stewart-Warner for test and study, which was done (Bommer, R. 548-9). Subsequently, Stewart-Warner announced its "Dual-Temp" line. Defendant Admiral purchased Stewart-Warner's refrigeration business, taking over its key refrigeration engineer Morton and "know-how", including, of course, that gleaned from tests of the Potter refrigerators before the original of the reissue patent in suit issued. Admiral in effect admitted that the machine of the Potter patent was inventive by imitating it (even more closely than did Stewart-Warner, which, unlike Admiral and the Potter refrigerator, had two refrigerant pressures (R. 969)).

The public and industry reaction leaves no doubt whatever that the Potter patent refrigerator was a long stride forward in the art and satisfied a long-felt need.

2. POTTER PATENT SATISFIES ALL THE APPLICABLE STANDARDS OF INVENTION

The evidence we have reviewed above, unappreciated and therefore ignored by Judge SOLOMON in his oral opinion, gives substantial—and, we submit, more than ample—support to the jury's finding that the Potter patent complies with the applicable standards of invention. We submit that he also failed to keep in true perspective the recognized criteria which courts have set to aid in the determination of this question.

The trial judge failed to appreciate that the negative doctrine of "aggregation" is, like all other such doctrines, a mere guide to aid the court in resolving issues of patentability or invention. Patent cases are *sui generis* in this respect. In the *A. & P.* case, 340 U.S. at 151, the opinion of the court, after pointing out that the concept of invention is "inherently elusive when applied to combination of old elements", repeats the classic statement of Mr. Justice BROWN in *McClain v. Ortmyer*, 141 U. S. 419, 427:

"The truth is the word cannot be defined in such manner as to afford any substantial aid in determining whether a particular device involves an exercise of the inventive faculty or not. In a given case we may be able to say that there is present invention of a very high order. In another we can see that there is lacking that impalpable something which distinguishes invention from simple mechanical skill. Courts, adopting fixed principles as a guide, have by a process of exclusion determined that certain variations in old devices do or do not involve invention; but whether the variation relied upon in a particular case is anything more than ordinary mechanical skill is a question which cannot be answered by applying the test of any general definition."

We have no doubt as to the correctness of the holding in the *A. & P.* case, or as to the language of the whole opinion, when properly applied to any comparable fact situation, as this Court and others have been quick to do. It has been much overworked by infringers brought to book, however, probably because of statements which can be lifted out of context and urged without the facts in mind. This, Judge SOLOMON seems to have done here.

In *Watson v. Heil*, 192 F. 2d 982 (4 Cir., 1951), the trial court held invalid a patent on a particular form of shopping cart. The Court of Appeals reversed and remanded, for

consideration of much less evidence of invention than has been presented here. The District Court's careful opinion at 96 F. Supp. 61, 67-68 clearly shows that the then recent decision in the *A. & P.* case resulted in excluding from consideration such evidence. The Court of Appeals held this reversible error, stating (at 984-5):

“Without attempting to assess the value of the proffered evidence, indeed we are in no position to do so since the defendant was not called upon to controvert or explain it, we think that it is at least entitled to consideration; for it bears on the question whether in fact the disclosures of the patent involved invention. When it is shown that a mechanical problem has persisted for some time, and men of ordinary skill in the art have failed to meet it when it is to their interest to do so, there is at least some ground for the conclusion that it was beyond their capacity. Such a circumstance has not infrequently been held sufficient to carry a discovery across the inventive line. Thus in the well known case of *Eibel Process Co. v. Minnesota & Ontario Paper Co.*, 261 U.S. 45, 43 S.Ct. 322, 67 L.Ed. 523, a very simple change in paper making machines solved a difficulty that had long plagued the industry and was given the status of invention, largely because it had been long sought in vain by practical men in the field. The court said, 261 U.S. at page 68, 43 S. Ct. at page 330: ‘The fact that in a decade of an eager quest for higher speeds this important chain of circumstances had escaped observation, the fact that no one had applied a remedy, for the consequent trouble until Eibel, and the final fact that, when he made known his discovery, all adopted his remedy, leave no doubt in our minds that what he saw and did was not obvious, and did involve discovery and invention.’ See also *Oles Envelope Corp. v. Baltimore Paper Co.*, 4 Cir., 89 F. 2d 279, 285; *Oates v. Camp*, 4 Cir., 83 F. 2d 111, 115; *Hoeltke v. C. M. Kemp Mfg. Co.*, 4 Cir.,

80 F. 2d 912, 919; *Safety Car Heating & Lighting Co. v. General Electric Co.*, 2 Cir., 155 F. 2d 937, 939; *Pointer v. Six Wheel Corp.*, 9 Cir., 177 F. 2d 153, 160.”

That was a trial to the Court and not before a jury. In the instant case the jury was permitted to consider such evidence and defendant was given every opportunity to controvert or explain it. So there is no occasion to remand this case for any such reason.

It is abundantly clear that the Court of Appeals for the Fourth Circuit on the basis of the decisions cited in the above quotation squarely held that it was error not to consider and assess the weight of such evidence on the issue of obviousness. Clearly the trial Judge erred in holding that the record made presented no substantial evidence of invention for submission to the jury.

In the light of the facts showing the existence of a need and industry-wide problem, the vain attempts of others to solve the dehydration problem, its practical solution under the fundamental teachings of the patent in suit, and the impact of the invention on the industry and the public generally, the trial Judge erroneously held that in this case as a matter of law there was no substantial evidence to support the verdict of the jury.

The basic requirement of patentable invention (over and above novelty and utility) is accomplishment beyond “ordinary” skill in the art. *Hotchkiss v. Greenwood*, 52 U.S. 248, 267. The recent codification of the Patent Law makes this test a part of the statutory law, in declaring unpatentable an alleged invention that is “obvious” to a person having “ordinary” skill in the art. 35 USCA §103.

In an effort to define further what combinations are inventive; that is, patentable because not “obvious”, patentable because beyond “ordinary” skill in the art, the courts have formulated certain guides commonly called

“standards of invention” and so designated in the decision below (R. 74).

Thus in the *Hansen* case decided by this Court less than two months ago, the trial Judge was reversed for finding a patent not inventive and the following standard of invention was formulated by the Court:

“But a combination of such elements [i.e. old in the art] will still amount to invention if it performs a new and useful function.” *Hansen v. Safeway Stores*, 110 USPQ 170, 172-173.

We have shown above (pp. 25, 27) how the combination of the Potter patent did perform new and useful functions and operations. While the trial Judge appeared to recognize this standard in his oral opinion (R. 73), he ignored the evidence which showed that the Potter patent fully satisfied said standard.

Shortly before the *Hansen* decision, this Court sustained the validity of a patent for a novel combination in wall heaters as inventive in *Coleman Co. v. Holly Mfg. Co.*, 233 F. 2d 71, and discussed various standards of invention as follows (at 78, 79, 80):

“In examining the record in this case we have been fully mindful of the teachings of *The Great Atlantic and Pacific Tea Co. v. Supermarket, etc. Co.*, 340 U. S. 147, where the important question of patentability of mechanical devices came under close scrutiny. The Court there decided, *inter alia*, that ‘only when the whole (of a device the elements of which are old in the art) in some way exceeds the sum of its parts is the accumulation of old devices patentable.’ Since all of the devices here involved are mechanical contrivances the *Atlantic and Pacific Tea* case imposed upon the lower court the necessity of answering some pertinent fact questions posed by the record before it, and the contested issue of patentability of

and invention in the Holly device naturally presented such queries as: Were *all* of the elements of that device old, well-known or used in the art when it was patented? If so, does the 'whole' of the device 'in some way' exceed the sum of its parts? Is it 'wanting in *any* unusual or surprising consequences from the unification of its elements'? If all of its elements were 'old in the art' did they take on 'some new quality or function which produced a new and better result in the room-heating art from being brought into concert'? If so, did these elements then contribute to the room-heating art any new and unique quality and distinction which reflect novelty and utility and thus contribute any measurable and substantial advance in that art? The record reveals that these questions were considered and adequately answered by the lower court as will be apparent from its elaborate and sweeping findings which we later summarize.

"If we were to assume (which we do not) that *all* of the elements found in the Holly apparatus were old in the art when measured against elements, some of which were shown in one and some in another or more of the cited prior patents, we would still not come up with a wholly satisfactory answer to the question of patentability of the Holly machine. As far back as 1878 the Supreme Court, in a leading case, pointed out that the separate presence of the elements of a combination in three or four other patents in the prior art does not preclude a finding of invention when these elements are later so combined as to produce a new or better result. Judge YANKWICH applied this principle in *Kammerer Corp. et al. v. McCullough et al.*, 39 F. Supp. 213 at page 216. His judgment in that case was affirmed by this Court in *McCullough et al. v. Kammerer Corp. et al.*, 138 F. 2d 482, cert. dismissed 323 U. S. 327. In adhering to the principle above noted, the trial judge adopted language found in *Bates v. Coe*, 98 U. S. 31, 48, where the Court says:

‘Where the thing patented is an entirety consisting of a single device or combination of old elements, incapable of division or separate use, the respondent cannot escape the charge of infringement by alleging or proving that a part of the entire thing is found in one prior patent or printed publication or machine, and another part in another prior exhibit, and still another part in a third one, and from the three or any greater number of such exhibits draw the conclusion that the patentee is not the original and first inventor of the patented improvement.’

“We have referred to the *Atlantic and Pacific Tea* case because appellant insists that the Holly device is nothing more than an aggregation of old elements which were incorporated in one or the other of the various prior art patents cited by it as evidence of anticipation, with particular emphasis on the three fireplace devices we have described.” * * *

“This suggestion poses the question whether this ‘economizer’ or secondary heat exchanger constitutes an ‘element’ in the Holly device which will (to quote the Supreme Court) ‘perform any additional *or different function*’ (i.e., a special purpose) when brought into concert with the other elements in the combination than it would perform out of it. The trial court was persuaded that it does perform exactly that sort of function, and so are we. From the entire record it appears that a ‘heat exchanger’ or ‘economizer’ of this peculiar construction and arrangement has never been embodied in any type of mechanical wall heater apparatus prior to its application and use in the Holly device. The earlier patented devices all of which were in evidence cannot be said to embody in any material way the dual heat-passing functional operation accomplished by the use of the upper box ‘economizer’ integrated into the complete Holly device. In our opinion this arrangement of parts has caused all of the elements incor-

porated in the Holly combination to cooperate in a new way to produce a new, useful and unexpected result in the room-heating art. This combination spells out both novelty and utility. As reduced to practice its attributes have caused the Holly device to take on a new and unique quality and distinction which clearly makes it a new and useful improvement in wall heaters fired with gaseous fuel and as such it represents a measurable and substantial advance and improvement in the room-heating art and a valuable contribution thereto.

“Furthermore, a careful look at the prior art patents in evidence makes it impossible to conclude that creating the compact wall combination in suit would have been a simple, obvious and fairly easy chore for a skilled mechanic familiar with room-heating problems after he had seen these Letters Patent and understood the construction and method of operation of the devices there described. In our view the whole of the Holly device yields ‘surprising consequences’ which others in the heating field failed to find ‘obvious’.”

As demonstrated above (pp. 25-8), elements of the Potter patent had a different and added function or operation in the combination than out of it; that therefore it did exceed the sum of its parts; that it did produce unusual or surprising consequences. Although the Trial Judge stated he recognized these standards of invention in his oral opinion, citing the *Jacuzzi* and *Kwikset* decisions of this Court (R. 72-3) he completely ignored the evidence which showed that the Potter patent satisfied all these guides.

Coleman v. Holly recognizes an important standard of patentable invention laid down by the Supreme Court of the United States which Judge SOLOMON erroneously ignored; namely, that “the thing patented is an entirety, consisting of a *single* device or combination of old elements, *incapable of division or separate use*”. General Electric’s attempt, noted above (p. 21), of two refrigerators

banded together and placed on a single set of legs is an example of aggregation capable of division or separate use. The combination in the *Jacuzzie* case presents another instance: there two separately operable old pumps were simply operated together in the same way on the same motor, 214 F. 2d 785, 791. The Potter combination, on the contrary, is a true combination, not aggregation, being composed of interrelated, co-acting elements. Its parts cannot be separated or divided into an operable freezing refrigerator and an operable moist cold refrigerator. The Potter patent combination is actually a single heat "pump" (the volatile refrigerant with its unified circuit including balanced heat-withdrawing surfaces and single liquefying unit) which extracts heat from *both* compartments, maintaining below-freezing in one and moist cold in the other. Furthermore, the Potter sub-combination with the differential of insulation uses the temperature of the moist cold compartment to regulate the temperature of the freezing compartment. This feature is not shown in any of the prior art of record. The Potter patent fully satisfied this standard of invention accepted by the Supreme Court and by this Court and ignored by the court below.

Coleman v. Holly sanctions a further important standard plainly applicable to the patent in suit, by which the patentability of new and useful combinations is to be guided, but which Judge SOLOMON erroneously ignored in his decision; namely, *where persons skilled in the art have in fact tried and "failed to find" the device in question*. This standard of invention was also laid down by the Supreme Court of the United States:

"Where the method or device satisfies an old and recognized want, invention is to be inferred, rather than the exercise of mechanical skill. For mere skill of the art would normally have been called into action by the generally known want." *Paramount Publix Corp. v. Amer. Tri-Ergon Corp.*, 294 U. S. 464, 474.

This standard of invention was held decisive in *Blaw-Knox Company v. I. D. Lain Company, Inc.* decided February 27, 1956, 230 F. 2d 373 (7 Cir.), where combination claims on a method and a mechanism for paving highways were held valid and the holding by the District Court under the *A & P Tea Co.* case that it was a mere aggregation accomplishing no new results was reversed. LINDLEY, *C.J.*, said at p. 376:

“All prior efforts to solve the problem had resulted in ineffectiveness. For the first time in the art, Bushnell demonstrated that his specific placement and prescribed relationship of the three elements in a road building machine furnished a complete answer to the problem. In other words, to our way of thinking, all this produced a new and a useful result which had not been accomplished by any of the workers in the art prior to that time.”

* * *

“This, it seems to us, brings the case within the teachings of *Great Atlantic & Pacific Tea Co. v. Supermarket Corp.*, 340 U.S. 147, 71 S. Ct. 127, 95 L. Ed. 162, from which it is clear that it constitutes patentable inventions to select elements out of old combinations while discarding others and to put them together in a new way, if a new and surprising result is achieved, or the new conjunctive elements exceed in whole the sum of its parts. See also *Lewyt Corp. v. Health-More Inc.*, 7 Cir., 181 F. 2d 855, cert. denied 340 U.S. 823 71 S. Ct. 57, 95 L. Ed. 605 (CA 7); *Helms Products, Inc. v. Lake Shore Mfg. Co.*, 7 Cir. 227 F. 2d 677.

“To say that Bushnell conceived mere aggregation with no new results is equivalent to saying that his achievement would have been obvious as a whole to a person having ordinary skill in the art to which it pertained, as those terms are employed in the Statute, 35 U.S.C. 103. But here the undisputed facts show beyond peradventure that the conception was not

obvious, that other workers in the art failed to comprehend the ideas disclosed by Bushnell or to suggest his successful solution of the troublesome problem. He was the first to accomplish a new and useful result. Upon this record, we think it clear that he made a patentable invention within the meaning of the statute."

RECENT CASES IN ACCORD: *Stearns v. Tinker*, 220 F. 2d 49 (9 Cir. 1953), cert. denied, 350 U. S. 830, where the District Court was reversed and an insulation testing device held patentable; *Filtex Corp. v. Atiyeh*, 216 F. 2d 443 (9 Cir. 1954), quoting the Supreme Court as above and applying the standard to uphold a patent on a vacuum cleaner nozzle; *Pacific Contact Labs. v. Solex Labs.*, 209 F. 2d 529 (9 Cir. 1953), cert. den., 348 U. S. 816; *Patterson-Ballagh Corp. v. Moss*, 201 F. 2d 403 (9 Cir., 1953), upholding a patent on a wire line spooler or controller, a device to alleviate the lateral whip of an oil well drilling line, since others had tried and failed to solve this problem; *Flakice Corp. v. Liquid Freeze Corp.*, 130 F. Supp. 471, (N. D. Cal., 1955) (no appeal), upholding a patent on an ice cube apparatus that employed a wedge, the Court stating (at 487):

"Short produced a machine which filled a long felt need, which those skilled in the art had not been able to devise before him. It is true that in operation the principle is simple, but this does not detract from the invention. Indeed, it has enhanced it. It is the method which in the end operates simply which is most needed and which often is the most elusive. The presence of invention is not judged by reference to the accomplishments of Rube Goldberg."

There was a long-felt need for a single, household refrigerator that provided continuous moist cold and continuous freezing temperatures and that eliminated manual

shut-downs for defrosting. The dehydration problem was particularly acute in the conventional household refrigerator. For years the industry's skilled refrigeration engineers tried but failed to come up with any practical commercial answers to this problem. The Potter combination solved it, as the public and the industry reaction demonstrated. The simplicity, once disclosed, of the Potter combination, was an added virtue. The patent in suit taught a combination which was the most efficient household refrigerator structure ever invented. It thus established what has remained to this day a standard type of household refrigerator, known to the trade as the moist cold type. Clearly, these facts establish invention of a high order, under the standard of invention followed by the Supreme Court and this and other Courts in the cases last cited, but wholly overlooked by Judge SOLOMON in his decision.

Last November this Court in *Ry-Lock v. Sears Roebuck*, 227 F. 2d 615, reversed the California District Court for the Northern District (Northern Division) and held a window screen locking device an inventive combination of old elements, saying at pp. 617-8:

"It is true that Ry-Lock utilized the principle of a lever in the manner we have previously described. It is also true that the principle of the lever is probably as old as the oldest mechanical art, but it must be borne in mind that Ry-Lock's patent was for a combination. There is no doubt but that the various parts utilized by Ry-Lock were, separately considered, old, but we think that the mere fact that Norquist utilized a collar operating on threads in a pin, and that Boomershire utilized the lever in an entirely different type of operation, is not sufficient to establish the defense of anticipation sought to be set up by Sears. Each of the elements making up Ry-Lock's combination performs a substantial and necessary function in bringing about new results. *Winslow Engineering Co. v. Smith*,

9 Cir., 223 F. 2d 438. In our view there is invention here, for the whole of what Ry-Lock has produced exceeds the sum of its parts, and it measures up to the standards of invention which this court has approved in the Winslow case, *supra*. Indeed, we are of the opinion that the finding of want of invention and of anticipation which the trial court made was inherently defective and insufficient.* * *

“This invention, made up by combination of elements, in a manner which was sufficiently new and novel to measure up to the accepted standards of invention, was not, in the language of *Himes v. Chadwick*, 9 Cir., 199 F. 2d 100, ‘a mere aggregation of a number of old parts’. Hence, a finding which, as here, picks out one element in one prior patent and another element in another prior patent as a demonstration of anticipation, is manifestly insufficient to overcome the presumption arising from the issuance of the patent, a presumption reemphasized by the existing Act. 35 U. S. C. A. §282.

“We hold therefore that the findings of lack of invention and of anticipation are clearly erroneous. Sears wholly failed to present a case to justify the findings made. The record compels a finding that the patent was valid.”

Similarly, as to the defense in this suit, (Anderson “plus” Larkin), picking “out one element in one prior patent and another element in another prior patent * * * is manifestly insufficient to overcome the presumption arising from the issuance of the patent, a presumption reemphasized by the existing Act.” This presumption of invention, to which the Potter combination is entitled, is strengthened by the facts that the Patent Office found invention a second time by allowing the reissue patent in suit; that in the *Stewart-Warner* case the jury and Judge LeBuy sustained the invention of the Potter refrigerator;

and that on the appeal of that decision, the Seventh Circuit acknowledged that the Potter machine was a patentable "improvement" 159 F. 2d 972, 976. (The defense of functional statement, upheld there, led to reissue—see former appeal in this Court 217 F. 2d 39—and that defense has now been dropped in this case R. 1489). Judge Solomon's decision erroneously gave no weight to this presumption of validity reemphasized by the new Patent statute and strengthened by the findings of invention by other tribunals.

In *Filtex*, cited above, this Court held as follows (at 445):

"And, in addition to this, we have the presumption arising from the imitation of the patented article by the manufacturers of the alleged infringing device. As to this, we agree with what was said by Justice Hough, speaking for the Circuit Court of Appeals of the Second Circuit in *Kurtz v. Belle Hat Lining Co.*, 280 F. 277-281. 'The imitation of a thing patented by a defendant who denies invention, has often been regarded, perhaps especially in this circuit, as conclusive evidence of what the defendant thinks of the patent, and persuasive of what the rest of the world ought to think.'"

That defendant Admiral imitated the Potter combination is established by the evidence to be discussed below in the section on infringement. This "conclusive" or at least "persuasive" evidence of patentable invention was also overlooked by the court below.

In *Oxnard Cannery v. Bradley*, 194 F. 2d 655, this Court held (at pp. 656-7):

"Appellants' first specification of error lies in the contention that there was no evidence to support the verdict of the jury on the issues of validity and infringement. In testing the sufficiency of evidence to sustain a verdict in favor of plaintiff, the evidence and all reasonable inferences deducible therefrom must be considered in the light most favorable to plaintiff and any conflict in the evidence must be resolved in favor of the

jury's findings. Where a jury, under instructions against which no complaint is made, finds for the plaintiff, plaintiff is entitled on appeal to have considered as true all evidence which was offered upon controlling issues and were entitled to all inferences reasonably to be drawn therefrom. *Zarek v. Fredericks*, 3 Cir., 138 F. 2d 689, affirming D.C., 49 F. Supp. 65."

The evidence we have set forth demonstrates Judge SOLOMON's entire disregard of this fundamental rule in reviewing the jury's verdict. The jury finding of patentable invention in the instant case was supported by record evidence which was totally ignored in the decision below. A combination of old elements is patentable if it satisfies standards of invention laid down by the recent cases cited. Judge SOLOMON's decision overlooked a number of such important guides. The substantial evidence shows that the Potter patent satisfies all these criteria of invention, both those stated in, and those omitted from, the District Court's opinion.

B. The Specification of the Patent in Suit Made the Disclosure Required by the Patent Law, 35 USCA §112, Concerning the Existence of a Fin Coil or Other Extended Surface Coil.

Whether the disclosure made by the specification of the patent in suit was sufficient to satisfy 35 USCA §112 was, of course, a question of fact which the jury's verdict resolved in favor of the patent.

Judge SOLOMON held that this finding was without basis, in one particular only. His entire opinion on the point is as follows (R. 74):

"I was also concerned about the fact that although it was conceded that the validity of the patent in suit is dependent upon the existence of a fin coil or other

extended surface coil, such a coil was not disclosed in the specification. Plaintiff's expert testified that by looking at the drawing he could tell that a fin coil or a brine tank was described. He, therefore, contended that a failure to disclose the fin coil in the specification did not invalidate the patent. However, it appeared to me that the requirements of 35 U.S.C.A. §112, had not been met."

Note that in the first sentence, the trial Judge speaks of "a fin coil *or other extended surface coil*". He thus indicated what is undisputed in the record; namely, that "extended surface coil" (a duct for enclosing the flow of volatile refrigerant with its extension or surface for withdrawing heat; other common names for the structure in the refrigeration art are "expander", "evaporator" or simply "coil" R. 761, 887, 895, 1171, 1190) has a number of species of which "fin coil" is only one. The term 'fin' simply refers to metal surfaces added to the duct surface, for the purpose of collecting or concentrating the heat. That also counteracts the evaporating temperature of the refrigerant, which is important in fixing temperatures of the heat withdrawing surfaces in contact with the air. Another example of extended surface coil is given in the second sentence above-quoted from Judge SOLOMON's opinion: "a brine tank". In this type the refrigerant-conveying duct is immersed in a tank of brine, which extends or adds to the heat-conducting surface of the duct (R. 1171, 1190).

It was well known that by the proper proportioning of the extended surfaces of the duct the temperature of the duct and its cooling surfaces can be varied within wide limits (R. 617, 856). In a freezing coil in which the temperature of the heat-withdrawing surface is below 32° F., the duct may be bare or have some extended heat-conducting surfaces. Such a coil is the standard element of a conventional refrigerator. For a non-frosting cooling coil, containing refrigerant at below 32° F. and having heat-

withdrawing surfaces maintained above 32° F., more extended heat-conducting surfaces are required. Fins such as those shown in Fig. 2 of the patent (R. 759, 601, 610-611, 615-616) are suitable for this purpose; other extensions then known are equally suited. There is no dispute that in 1930, and before, a freezing coil and a non-frosting cooling coil were available and known instrumentalities, in fact, stock items (R. 165-7, 218-219, 684, 851-2, 857).

The Potter patent explains that the freezing and cold storage compartments contain "preferably a brine tank" through which passes an expansion coil 22 called a "freezing coil". "The food storage compartment 14 is provided with a cooling coil 25 which draws refrigerant from the discharge end of the freezing coil 22" (col. 2, lines 53-55, and col. 3, lines 7-16).

As to the "freezing coil", the patent explains that "the expansion valve 23 is set to permit flow of refrigerant into the freezing coil which will provide a temperature approximating zero while the temperature in the cold storage compartment 13 will be in the neighborhood of twenty degrees" (col. 3, lines 30-35). As to the "cooling coil", the patent explains that it is to be non-frosting except where it enters the food storage compartment "where a slight amount of frosting" may occur, which is just another way of saying that its surfaces are to be above 32° F. (col. 6, lines 1-5). That slight frosting may occur at the entrance of the coil into the compartment is explained by the fact that, as seen in Fig. 1, the duct is bare, i.e. is not provided with fins or extended surfaces, in the first part of its travel into the food compartment. The patent also adds that the food storage compartment is to be non-frosting and that the "necessity for defrosting is entirely eliminated" (col. 5, lines 53-66).

The patent also explains that the "requisite difference of temperature between the cooling compartment 14 and the cold storage compartment can be maintained * * by * *

providing a proper ratio of the cooling elements for said compartments'' (col. 3, lines 44-51), which plainly means by proper proportioning of the heat-conducting surfaces of these elements.

This proportioning of the heat-conducting surfaces of the freezing coil and of the non-frosting cooling coil is brought out in the claims which all state the cooling refrigerator expander and the freezing refrigerator expander are to have ''heat-conducting surfaces * * constructed and arranged to maintain its heat-conducting surfaces at a temperature'' above 32° F. in the case of the cooling coil and well below 32° F. in the case of the freezing coil. We believe this language of the claims is adequately supported by the specification; and their allowance by the Patent Office on reissue, where the claims were subject to especially careful scrutiny, represents the considered judgment of the Patent Office on this technical point of sufficiency of disclosure under 35 USC §112.

The patent does not prescribe the measurements of the heat-withdrawing surfaces to be used with either of the two refrigerating elements except as they are illustrated in the drawings. Such information was not required, for the proper proportioning of the surfaces to attain the results required by the patent. That was all well known. A skilled worker, having read the specification, would have no difficulty in properly selecting and using these coils and producing the Potter refrigerator. That was in substance admitted by defendant's expert (R. 1213-4) and could hardly have been denied in view of the evidence previously discussed showing that freezing and non-frosting cooling coils with extended surfaces were well known. The patent need not rely on the details of the drawing further than as described in the specification to furnish such well-known information.

Patents being addressed to those skilled in the art, there is never any need for a detailed description of devices which

were then well known such as expansion valves, thermostats or non-frosting coils. As said in *Loom Co. v. Higgins*, 105 U.S. 580, 586:

“That which is common and well known is as if it were written out in the patent and delineated in the drawings.”

This Court in *Anraku v. General Electrical Co.*, 80 F. 2d 958, said at p. 963:

“Although statements in cases may be found discussing the sufficiency of description [*Diamond Rubber Co. of New York v. Consolidated Rubber Tire Company*, 220 U.S. 428, 435, 31 S.Ct. 444, 55 L.Ed. 527; *Eibel Process Co. v. Minnesota & Ontario Paper Co.*, 261 U.S. 45, 66, 43 S.Ct. 322, 67 L.Ed. 523; and *General Electric Co. v. R. P. Mallory & Co.* (C.C.A. 2) 298 F. 579, 588], we have held that whether or not a disclosure is sufficient, is a question of fact, to be proved by the evidence. *Schumacher v. Buttonlath Mfg. Co.* (C.C.A.) 292 F. 522, 532. A description of the patent under the statute is sufficient if it will ‘enable any person skilled in the art * * * to make * * * and use the same.’ ”

* * *

“With regard to the usual contentions made by those claiming insufficiency of description, it was aptly stated in *General Electric Co. v. R. P. Mallory & Co.*, *supra*, 298 F. 579, page 588: ‘Patents often lend themselves to fine-spun theories; but it is singular how plain they are, if they are worth anything, to the man who wishes to infringe for profit.’ ”

Clearly, it was not necessary for Potter to detail in the specification either the particular type of heat-withdrawing surfaces which he showed in his drawing or their precise dimensions. These and alternatives were all well known (R. 218). The drawings merely amplified the specification

in respect to matters of detail which were unnecessary. As plaintiff's patent expert testified on cross-examination, the specification meets the requirements of the statute (R. 864-5; also 761). The statutory presumption of validity, the specification, Mr. Parker's expert opinion, the uncontradicted evidence that non-frosting coils are old in the art, and the other evidence demonstrate full compliance with the requirement of disclosure.

C. The Claims Were Sufficiently Definite to Satisfy the Statute.

Whether the claims of the patent in suit were sufficiently definite to satisfy the statutory requirement—

“particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention” (§112)

was, also, of course, a question of fact which the jury's verdict, and answer to special interrogatories (R. 65a-b) expressly, resolved in favor of the patent in respect to all four claims.

All that Judge SOLOMON stated on this point, in his decision, is the following (R. 74):

“I likewise was in doubt as to whether the claims were sufficiently definite to satisfy the statute.”

We note, firstly, this was only a “doubt” formed before the end of the case for plaintiff. We do not even know whether Judge SOLOMON retained the doubt at the time of decision.

Be that as it may, *a mere doubt on this point cannot support a holding adverse to the patent because of the presumption of validity.* The Judge being in doubt, the presumption prevails.

Moreover, upsetting the jury verdict as without basis was equivalent to the conclusion that no reasonable 12 jurors could find that the claims were sufficiently definite. Yet plainly a mere "doubt" of sufficient definiteness in the claims falls far short of such a conclusion. *Hence the decision on this point, necessarily, and on its face, fails to justify the setting aside of the verdict.*

Finally, the opinion does not say *what* the trial Judge's doubt was *in any particular whatever*. To invalidate a patent because of a completely unparticularized doubt, as to definiteness of the claims, is an arbitrary interference by the Court below with the patent system established by Congress. To brand a jury verdict as without basis or reason, because of such wholly unparticularized doubt, is a capricious frustration by the trial Judge of the plaintiff's constitutional right to trial by jury.

The patent was in evidence. Plaintiff's patent expert, Parker, interpreted the claims particularly and distinctly (R. 772-824, 887-935, 1334-84) and was firm in his opinion: "My opinion as to how these claims read and as to how the language should be interpreted has not been changed by anything I have heard Mr. Muffy (defendant's only witness) say" (R. 1382-3). The presumption of validity, the patent itself, and Parker's expert testimony fully support the verdict.

II. INFRINGEMENT OF THE PATENT IN SUIT BY DEFENDANTS' ACCUSED DEVICES WAS CLEARLY ESTABLISHED BY SUBSTANTIAL EVIDENCE.

Defendant Admiral's and defendant Amana's accused devices were identified and the defendants stipulated that if Admiral's accused devices infringed the patent in suit, then Amana's did so likewise (R. 823). The evidence therefore was directed to infringement by Admiral's accused devices.

The jury, by its verdict for plaintiff and answers to special interrogatories, found that the accused devices infringed all four claims (R. 65a-b). The trial Judge in his opinion did not disagree with the proposition that if the accused devices infringed any claim, they infringed all four.

Plaintiff's patent expert explained in most careful detail the grounds for his opinion that the claims of the Potter patent read squarely on the accused devices, and the jury credited his testimony.

The trial Judge held, nevertheless, that in two particular respects there was no basis for the jury's finding of infringement. We shall discuss, separately, these two particulars, demonstrating that the lower Court's holdings were clearly wrong as to each.

A. Whether or Not "They Were Cold-Wall Refrigerators As Distinguished from the Fin-Type", the Accused Structures Infringed the Claims of the Patent in Suit.

The Trial Judge's entire holding on this point is as follows (R. 75):

"There was no dispute about the structure of the accused devices. They were cold wall refrigerators as distinguished from the fin-type refrigerator which is exemplified in the patent in suit."

The holding, therefore, stands or falls with his assumption that the patent in suit "exemplifies" a *fin-type refrigerator*. Now the undisputed evidence is, and the Trial Judge so held (R. 74), that the term "*fin*" does not appear even once in the entire patent. (See the patent in suit; R. 864; 1210). Moreover, a *fin per se* was not the subject of the patent (R. 862). What was essential to the invention, and was amply disclosed in the specification, was a non-frosting

coil which could be either a finned coil or any other type of extended surface coil such as a brine tank. *There is thus no support whatever for the Judge's holding that the patent in suit was an example of a "fin type". Indeed, the undisputed evidence demonstrates the precise converse.*

The patent teaches that by proper proportioning of the surfaces of the freezing coil and the non-frosting cooling coil, the heat-withdrawing surfaces can be maintained at the desired temperature, i.e. well below 32° F. in the case of the freezing element and above 32° F. in the case of the non-frosting cooling element. As we have shown, it was well known in 1930 how to produce non-frosting cooling elements by the use of extended heat-withdrawing surfaces and a number of such forms were known. In the drawings, the patent shows two forms, one a brine tank which might be called a cold-wall refrigerating element in connection with the freezing element and fins in connection with the non-frosting cooling element, but it is plain that the form of the extended heat-withdrawing surface was not a matter of substance for the particular fin form is not even mentioned in the specification and the claims contain no limitation to the form of the heat-withdrawing surfaces. In view of the diagrammatic disclosure in the drawing of both a cold-wall type and a fin-type extended heat-conductive surface, it would be as logical to say that the patent exemplified both rather than either (R. 1210). The patent, however, is not limited to any particular exemplification of non-frosting heat-withdrawing surfaces.

The accused devices were, as the Judge said, "cold wall" refrigerators. The pertinent inquiry is, therefore, whether "cold wall" refrigerator is a species of extended surface coil genus. The jury verdict establishes the affirmative and the trial Judge did not hold otherwise. Moreover, the undisputed evidence shows affirmatively that the "cold wall" accused devices fall squarely into the class of "extended surface-coil" refrigerators defined by the claims of the Potter patent.

Astonishingly enough, the trial Judge was even wrong in distinguishing between "cold-wall" and "fin", for the evidence is that a cold-wall is only a kind of fin! 'Cold wall', 'cold plate', 'liner', 'sheet metal', like 'fin' are all terms descriptive of a metal surface in thermal contact with the surface of a metal tube (within which refrigerant flows), for the purpose of providing an 'extended surface coil', i.e. an expander or evaporator with extended heat-conducting surfaces. (Larkin, Davenport, Gibson patents in evidence). Defendant Admiral's chief engineer, Morton, conceded that the cold wall of the accused device was in thermal contact with the expander, and he quibbled that the cold wall was not a fin because it was less efficient! (R. 984-985). This is the same, of course, as saying that a cold wall is an inefficient fin, and that an inefficient fin is not a fin.

Even in the Morton patent, which most nearly described the accused, defendants' devices, the whole secondary system was characterized as a fin for the primary (R. 799, 898).

But apart from mere words as to whether cold wall or sheet metal is or is not a fin, *the experts for both sides were in agreement that the 'cold wall' or sheet metal, of the accused devices had the operation and function of providing extended heat-withdrawing surfaces for a duct within which refrigerant flowed* (R. 810-811, 903-905, 1232). The accused devices are, without question, examples of extended surface coil refrigerators, and within the coverage of the claims of the patent in suit. The trial Judge's holding to the contrary has no support whatever in the record.

B. The Accused Structures Had "A Single Liquefying Unit" of the Kind Defined in the Claims of the Patent in Suit.

The only other particular, in which the trial Judge held that the jury findings of infringement were without basis, is found in the following sentence of his opinion (R. 75):

“Likewise, all of the claims of the patent in suit call for a single liquefying unit; in the accused structures there were two liquefying units, each of which had its own volatile refrigerant flowing through a separate and distinct circuit.”*

This holding is fatally defective on two grounds:

FIRST: Contrary to the trial Judge’s statement, the evidence, including the testimony of Admiral’s engineer who designed them (R. 989), plainly shows that the accused devices have *only one liquefying unit*. Morton, the refrigerator engineer from Stewart-Warner who redesigned the Admiral refrigerator said (R. 989) “you don’t have a condenser in the secondary system” and Muffly, the engineering and patent expert witness for Stewart-Warner, Admiral and Amana, was careful to point out that a “liquefying unit” is a “condenser” (R. 1188-90, 1256).

* Following this sentence there appear, in the opinion below (R. 75-76), two paragraphs of general comments on the infringement issue which are neither accurate nor enlightening. Plaintiff counsel’s statement about improvement, printed at R. 1416-7, is not correctly paraphrased by the trial Judge. Neither did counsel concede that the doctrine of equivalents was inapplicable; he stated plaintiff did not need it to prevail here. The jury was not asked in any special interrogatory to find whether the refrigerator of the patent and the accused devices were “identical in structure”. The invention was a pioneer one (see pp. 16-30). But whether or not it was, plaintiff is entitled to prevail, since *every patentee is entitled to the fair intendment of his claims*. (35 U.S.C., §112, par. 3). Infringement is proved when the identical structure defined by the claims is *included in* the accused device. That the accused device contains some *additional* feature is immaterial, even if that addition may itself constitute patentable invention. *Cochrane v. Deener*, 94 U.S. 780, 787; *Machine Co. v. Murphy*, 97 U.S. 120, 125; *Cantrell v. Wallick*, 117 U.S. 689, 694; *Tempco v. Apco*, 275 U.S. 319, 328. The accused devices appropriate the Potter invention.

SECOND: Assuming *arguendo* that the statement in the decision quoted above is factually accurate, it does not lead to Judge SOLOMON's conclusion that the claims do not read on the accused devices. The Potter patent claims *re* the circuit (with its liquefying unit) read in words and substance precisely and only on defendants' primary circuit condenser or liquefying unit. The secondary liquefying unit, if any, referred to in the Judge's opinion, has no liquefying or condensing action on the refrigerant in defendants' primary system. It operates only on refrigerant in defendants' secondary system, as a part of that elaborate "fin". Furthermore, that separate refrigerant does not "extract heat". It merely transfers heat within the refrigerator to the heat extracting refrigerant in the primary circuit, whereby heat from "both compartments" is "extracted" as required by all claims.

Unless water is pumped out of a boat and over the sides the water will not be removed from the inside space. So in a refrigerator the mere circulation of heat by means of a pump within a refrigerated space accomplishes nothing by itself. This whirlpool action is all defendants' secondary circuit does. The heat must in some way be withdrawn or "extracted" from a refrigerated space and dissipated beyond the insulation to the outside atmosphere in order to refrigerate that space.

The specific element of the claims that is pertinent to the present inquiry is in identical language in all four claims and reads as follows:

"a single liquefying unit associated with said expanders and constructed and arranged to condense refrigerant expanded by heat extracted from both said compartments", (Patent col. 7, lines 11-15).

The primary system of defendants' devices precisely corresponds to the claims of the patent in suit. The liquid refrigerant starts its heat withdrawing journey from the

compressor-condenser set through two ducts or coils which are in series relationship as in the patent, and which carry refrigerant respectively to “extract” heat from the freezing and the cooling compartments, also as in the patent. It is as simple as that.

The source of the Judge’s confusion appears to lie in the fact, noted in the opinion (R. 75), that the secondary circuit, as well as the primary circuit, has refrigerant. The Judge appears to have reasoned that refrigerant always needs a liquefying unit, and that since each circuit had refrigerant each circuit had a liquefying unit. The error lies in the failure to relate the major premise of this syllogism to the clear words of the patent and the realities of the invention. The secondary circuit will not work without the primary and its liquefying unit.

Moreover, by the undisputed evidence, the claim language does not read on any supposed liquefying unit of the secondary circuit. Thus: the alleged liquefying unit of the secondary circuit would not be associated with two expanders but only one; and it would not condense refrigerant expanded by heat extracted from both the cooling and freezing compartments. Accordingly, there is in the accused devices just a “single liquefying unit” of the kind pointed out by the claims of the Potter patent.

This is what the jury found by its verdict and in its answer to the final special interrogatory as follows (R. 65 b):

“Do defendants’ refrigerators have only a single liquefying unit associated with refrigerant expanders (coils with or without extended surfaces) and constructed and arranged to condense the refrigerant expanded by heat extracted from both the compartments?

X ”

YES NO

We submit that this answer was compelled by the evidence, and there is nothing in the Judge's holding to contradict it.

C. Conclusion on Infringement

In short, infringement was clearly proved. The trial Judge's two grounds for ruling otherwise are all contained in two sentences of his opinion which we have quoted above in full and carefully analyzed in the preceding Sections A and B. We submit that the Judge's 'grounds' are nothing but a conglomeration of unsupported statements and fallacies. The opinion below evinces a disregard of logic, law, and the facts of record. We next turn to the equally arbitrary decision on damages.

III. THREE PERCENT ON THE RESALE SELLING PRICE OR FIVE PERCENT ON THE MANUFACTURER'S PRICE OF THE INFRINGING DEVICES SOLD BY DEFENDANTS IS A REASONABLE ROYALTY ON THE PATENT IN SUIT.

The amount of damages which plaintiff suffered by defendants' infringement of the patent in suit was, of course, a question of fact within the province of the jury. The jury verdict (R. 65b-66) assessed plaintiff's damages against defendant Admiral at \$2,093,180.00 and against defendant Amana at \$45,575.00. In view of the number of infringing devices which the undisputed evidence showed were sold by defendants, this damage finding established a reasonable royalty rate of 3 per cent of the resale selling price, or 5 per cent of the defendant manufacturers' price, of the infringing devices.

Judge SOLOMON held (R. 76) that "there is no rational basis for the amount of damages fixed by the jury". His stated ground for this conclusion appears in his oral opinion, as follows (R. 76):

“Even if this patent is valid and infringed, it was a minor improvement in a crowded field and in my view a royalty of 3 per cent on the selling price or 5 per cent on the manufacturer’s price is completely out of line. In addition to a few licensing agreements, none of which showed such a high rate, the only other evidence was the testimony of Mr. Parker based upon a hypothetical question, which assumed that the patent in suit was a pioneer patent or one that had made a long stride in the refrigeration art.

An examination of the file wrappers of the original patent, as well as the patent in suit, clearly showed that this was not the case.”

In substance, then, his ground was that “a minor improvement in a crowded field” is not worth “a royalty of 3 per cent on the selling price or 5 per cent on the manufacturer’s price”. The same trial Judge applied this alleged rule in another case and fixed 1½ per cent as the reasonable royalty. This Court reversed the decision as “clearly erroneous”, holding that the royalty should have been at least 5 per cent, the rate established by licenses under the “minor improvement” on a gate valve. *U. S. National Bank v. Fabri-Valve*, 110 USPQ 77 (9 Cir., June 14, 1956).

The trial Judge was clearly in error here in holding that the royalty rate which the jury set was excessive because the patent in suit was, in his opinion, a minor one. Characterizations of the patent by the trial Judge as “major” or “minor”, in this context, are not enlightening guides in determining whether a jury’s finding of a reasonable royalty is or is not without “rational basis”, since what is major or minor is itself a question of fact which, as the trial Judge recognized in his instructions to the jury (R. 1481), must be answered by the jury on the entire record. The trial Judge’s conclusion that the patent is “minor” represents merely his opinion which he improp-

erly substituted for that of the jury. This was error of law, including abuse of discretion.

The statute requires an infringer to pay "in no event less than a reasonable royalty", and provides that the amount thereof may be established by expert opinion. 35 U. S. C. §284. *Alliance Securities Co. v. DeVilbiss Mfg. Co.* 76 F. 2d 503, 505 (6 Cir., 1935). What is a reasonable royalty must, of course, depend, in "each case [on] its own peculiar facts and circumstances". *Enterprise Mfg. Co. v. Shakespeare Co.*, 141 F. 2d 916, 920 (C. A. 6, 1944). In this Court it is therefore axiomatic that the amount of damages to be awarded is uniquely a jury function not to be judicially interfered with unless so grossly and manifestly excessive as to shock the conscience of the Court; see *Cutter Laboratories v. Lyophile-Cryochem Corp.*, 179 F. 2d 80, 91 (9 Cir. 1949). The jury's verdict in this case was more than amply supported by the *uncontested* testimony of plaintiff's expert, Mr. Parker.

Mr. Parker was asked to assume certain facts, as follows (R. 837-840):

"that a valid hypothetical patent alike in all respects to the Bronaugh and Potter patent No. 2,056,165, and issued on an application filed in 1931 and reissued on December 14, 1948, as Reissue No. 23,058, which hypothetical reissued patent contains the claims of Reissue Patent No. 23,058 in suit and which you have read to the jury; further assume refrigerators embodying the function and structural features of such hypothetical patent and such claims, and that such refrigerators were placed on the market in 1932 and were the first to provide in a single compact unit for household use a compartment for the preservation of fresh foods in a moist cold atmosphere above freezing temperature and a separate compartment for freezing and preserving other foods safely for long periods of time in frozen state at temperature substantially below the

freezing temperature; that such refrigerators for the first time brought refrigeration of a kind claimed to the home, that such refrigerator for the first time provided a household unit wherein, without the use of covered pans, the moisture of the foods stayed in the food instead of being dried out; that such refrigerators eliminated frosting and defrosting of the chilling element in the compartment for the preservation of foods at temperatures above freezing; that such refrigerators constitute the first major improvement in refrigeration for many years; and that in such refrigerators the transference of odors from one kind of food to another is minimized; that such refrigerators constituted a brand-new idea in refrigeration, not just a new model; that such refrigerators proposed such advantages that they were sold largely as replacement for conventional refrigerators; that such refrigerators afford larger possibility of profit per unit to the manufacturer or his distributors and that such refrigerators have a retail value ranging from \$359.50 to \$449.50 for Amana and \$389.95 to \$529.95 for Admiral, which is substantially greater than conventional refrigerators of comparable size; and assume further that the conventional refrigerators which had been produced in the United States in and prior to 1931 dried out the natural moisture of the foods stored therein because of the frosting of the chilling element within the food chamber, and that said fact had existed from the beginning of electrical refrigeration during which time a substantial amount of household electric refrigerators were produced in the United States and that the largest manufacturer of household refrigerators in the United States which maintains a staff of trained competent specialists in various branches of engineering, devoting their entire time to experimental work for the further development and improvement of the company's products, which include items in addition to household electric refrigerators presented in 1930 as

its solution of the problem of food dehydration in household refrigerators a covered pan having a small cubicle content as compared with the cubicle content of the food chamber in the conventional refrigerators; and that the second largest manufacturer of household refrigerators in the United States, which also maintained a comparable staff of trained competent specialists attempted unsuccessfully at about the same time to place on the market two conventional refrigerators fastened together to minimize the same dehydration problem by operating said refrigerators simultaneously at different temperatures; assume further that a patent alike in all respects to Admiral's Patent No. 2,636,228, Exhibit 19-CC, covering a rubber gasket for a refrigerator door had since 1952 been licensed to large rubber and refrigerator companies at a royalty of $2\frac{1}{2}$ per cent of the manufacturer's sales price; assume that in the years 1949 to 1953, inclusive, there were sold in the United States a quantity up to 165,000 such refrigerators covered by such hypothetical patent and the claims stated above; assuming these facts to be true, have you an opinion based upon your experience as to what would be a reasonable royalty to be paid for the nonexclusive rights to manufacture and sell such refrigerators in the United States during such period?"

These facts are supported by substantial evidence (See Appendix B to this Brief for record references). On these facts, Mr. Parker expressed the opinion (R. 842) "that 10 per cent of the net to the manufacturer is a fair royalty". Cross-examination (R. 935-938) disclosed no infirmity in this expert opinion and defendants offered no contrary expert testimony on value. Accordingly, the record affords substantial support for a royalty twice as large as that returned by the jury.

The Judge instructed the jury (R. 1481) that

“A pioneer patent would be entitled to a greater royalty than a narrow patent in a crowded field.”

Thus, it was for the jury to decide what practical importance the patent in suit had, commercially*, and what weight to give to the un rebutted opinion of plaintiff's expert. A rate only half that recommended by the sole expert who testified on the matter, whose opinion was predicated on facts of record, and who was not subjected to any serious cross-examination, clearly does not shock the judicial conscience.

The only evidence which the Judge below relied on, as a reason for ignoring the jury's estimate of the commercial importance of the patent, was (R. 76) “the file wrappers of the original patent, as well as the patent in suit”. Plainly, the judge was confusing two entirely different matters. The *technical* place of the patent in the art is only one factor to be weighed with all the others in estimating the *commercial* value of the patent. It has long been held that where an improvement, even though a small part of the whole machine or process, actually gives it its merit and essential features and causes it to pre-empt the market, then the patentee is entitled to damages based on all the benefits derived from the entire machine or process; *Goulds Mfg. Co. v. Cowing*, 105 U.S. 253, 26 L.Ed. 987 (1882), *Tatum v. Gregory*, 51 Fed. 446 (9 Cir., 1892). This is less than the situation here, because as the evidence of record shows, the invention here included the basic principle of operation of a new two-climate refrigerator.

*Quinn, Vice President of General Electric, in charge of refrigeration at the time, testified, expressly, as to the major importance, commercially, of this invention as follows (R. 669):

“Q. Did you regard this (the Potter moist cold development—see R. 668) as a minor development?

A. No, it was an important development. There is no question about that”

As this Court held, in *Filtex Corp. v. Amen Atiyeh*, 216 F. 2d 443, 448, (9 Cir., 1954):

“As to what would be a reasonable royalty presents a serious question. Many factors determine a reasonable royalty other than the precise improvement. The entire unit must be considered. However, it must be borne in mind that the defendant in this case is the wrongdoer and as stated in *Horvath v. McCord Radiator & Mfg. Co.*, 6 Cir., 100 F. 2d 326-335:

‘McCord is an infringer and the burden must be placed upon it as a wrongdoer and it is the duty of the court to find for Horvath with reasonable approximation that to which he is entitled and in so doing, there is no duty to exercise meticulous care to avoid a hardship on McCord.’

“It is earnestly contended by the defendant that the royalty of ten percent allowed by the Master was too high, but from an examination of the record we see no reason which would warrant disturbing the findings of the Master or the finding of the trial court sustaining his finding.”

In basing exclusive reliance on his jaundiced view of the “precise improvement” and in ignoring the factors of record bearing on the commercial value of the patent for an “entire unit”, the trial Judge applied an erroneous yardstick to the jury’s finding and erroneously ignored “the burden [that] must be placed upon” the defendant infringers.

The file wrappers and the patents were before the jury along with the other evidence of record. Not only was the royalty here allowed by the jury less than in most other reported comparable cases (see, e.g., *Power Specialty Co. v. Conn Light*, 80 F. 2d 874 (C.C.A. 2, 1936), where a royalty of 15% was deemed fair without regard to profits; *Natural Brake & Electric Co. v. Christensen*, 38 F. 2d 721 (C.C.A. 7, 1930), *cert. den.* 282 U.S. 864) but it was even less (3%—

5%) than would have been fully warranted under all the evidence (6%—10%). See *Baseball Display Co., Inc. et al. v. Star Ballplayer Co., Inc.*, 35 F. 2d 1, 3 (C.C.A. 3, 1929). The trial Judge was clearly wrong in upsetting the verdict.

IV. DEFENDANT ADMIRAL'S INFRINGEMENT WAS WILFUL AND DELIBERATE, JUSTIFYING MULTIPLE DAMAGES AGAINST IT.

The complaint (R. 27, par. IX) claimed trebled damages against defendant Admiral "by reason of the wilful character of said infringement". This issue of wilfulness was tendered to the trial Court (not jury) for decision and was resolved against plaintiff by dismissal of the complaint. That Admiral's infringement of the patent in suit was wilful is plainly established by the record.

Annexed to Admiral's answers to interrogatories, plaintiff's Ex. 4 CC 7 and 4 CC 8, are its agreements evidencing its 1945 deal with Stewart-Warner. That arrangement was begun just at the time of the patent suit against Stewart-Warner (R. 1116-9), and consummated after the trial court's decision therein establishing validity and infringement, and well before the reversal on appeal in 1947, of the trial judgment because of functional statement of the claims in the original patent. Admiral's timing was good as to this transfer of the infringing business of Stewart-Warner, for the price was obviously set in the light of the then unreversed judgment and with even a limited indemnity (R. 1118-9) in Admiral's favor against liability for certain continued infringement then contemplated by Admiral.

The 1945 deal was a complete sale of all refrigerator designs, good-will, technical know-how, etc., and all Admiral's trained personnel in the refrigerator manufacturing and sales field stemmed from Stewart-Warner. Admiral itself had nothing in that field before 1945.

Thus it is necessary to consider the sordid story of Stewart-Warner's attempts, under the guise of a request for license, to learn about the Potter original patent even before it had issued (R. 1079), its pre-patent testing of the Potter patented refrigerators, unfairly conducted according to Bommer (R. 1105-6), the post-patent operations of Stewart-Warner which led to financial disaster and disruption of the business of the owners of the original patent, the resulting suit against Stewart-Warner and other facts of record here and, more important, of record in the Stewart-Warner 1944 trial and hence known to Admiral, years before it began its infringement by a refrigerator closer in basic respects to the patent than was the Stewart-Warner refrigerator which was held, after a full trial, to embody the invention in this suit.

The reissue, as well as the original patent, were known to and studied by the same patent advisor to, and professional expert testifier for, Stewart-Warner in that case and Admiral in this. Glenn Muffly, who testified in the Stewart-Warner case and said "Well, anybody naturally likes to win and so do I" (SWR Vol. 3 p. 1713) was hardly an impartial expert or advisor.

Evans T. Morton was and is the chief refrigerator engineer of both Stewart-Warner and Admiral and the patentee of most of Admiral's refrigeration patents, including its 21½% royalty producing gasket patent. He admits (R. 976-979) to years of study of the Potter patent, with Muffly's aid. The first knowledge he had of a "Potter principle" in a refrigerator was obtained at Stewart-Warner (R. 964-5), though he knew of attempts by Norge to control humidity as early as 1934 (R. 963).

He redesigned for Admiral the Stewart-Warner refrigerator, the basic differences being substitution for the cold plate and differential pressure control of the Stewart-Warner moist cold system the primary-secondary transfer plate and secondary system of Admiral (R. 969-971). This

redesign was unquestionably not for the proper purposes of avoiding infringement of the patent in suit. The Admiral refrigerator was redesigned deliberately to come closer in 1948-1953 to the disclosure of Potter. The prior Stewart-Warner differential pressure and cold plate system, which was held to infringe the original patent, was not used in Admiral's, nor in Potter's, commercial refrigerators.

The damages awarded by the jury against Admiral should now be trebled because of the reckless, knowing and deliberate defiance and appropriation of the invention of the patent in suit.

V. DEFENDANTS EXERCISED DELAY AND BAD FAITH IN THE COURSE OF DEFENDING THE ACTION, JUSTIFYING AN AWARD TO PLAINTIFF OF COSTS AND REASONABLE ATTORNEYS' FEES.

The complaint sought (R. 28) costs and disbursements, including reasonable attorneys' fees, against both defendants. By dismissal of the complaint, the trial Court held against plaintiff on this issue. We submit that this was error, since the record plainly shows that the infringing defendants exercised delay and bad faith in the course of defending this action.

During the more than five years pendency of this action, defendants have asserted, abandoned, reasserted after adverse rulings, many of the defenses as set forth in the pre-trial order (R. 35-40 and 50-59) and elsewhere in this record. They are so numerous it would unduly burden this brief to attempt a complete listing here.

An example or two will suffice.

On November 25, 1955, in defendants' motion for a directed verdict, (R. 65, par. (f)) they contended that there was no proof of Admiral's differential insulation, but on December 5, 1955, in their motion for judgment (R. 69, par.

(f)) this contention was quietly abandoned by omission. On November 23rd, Admiral's Chief Development Engineer, called by plaintiff, had already testified, reluctantly to be sure, to "some very small differences" of insulation in the Admiral accused device (R. 951-2). These differences were sufficient for Mr. Parker to complete his expert testimony and point out infringement of Claims 3 and 4 (R. 1357-9).

In 1951 defendants' attorneys agreed, in writing, (Former Record on Appeal pp. 32 and 51), "There is no dispute concerning ownership of the patent by plaintiff, plaintiff's right to sue for past infringement". The trial Judge signed this agreed statement and expressly stated that said order "shall not be amended, except by consent of both parties or to prevent manifest injustice". But as of November 14, 1955, defendants stated as their contention No. 5 (R. 56):

"Defendants and each of them have no knowledge as to the ownership of United States Letters Patent No. Re. 23,058 granted to L. J. Bronaugh and Thomas I. Potter and dated Dec. 14, 1948" * * *

This was done in the face of plaintiff's contention No. 6 (R. 42) which pointed out this 1951 admission. Thus, was plaintiff put to the unnecessary annoyance and expense of proving legal title by certified copies (Ex. 17) of publicly recorded documents and through a witness, Mr. Bronaugh, at the trial in November (R. 159), after this case had been in this Court and to the Supreme Court in the intervening four years on the defendants' written admission that title was not in issue.

Likewise, the defendants interposed the defense, baseless and intended to be prejudicial, and overruled by the trial Judge (R. 78), of unclean hands.

Furthermore, defendants filed two vexatious and dilatory suits for declaratory judgment against plaintiff in the

Southern District of New York, after plaintiff invited them (R. 5) to intervene in this action, which, years later, they dropped.

They also filed the ill-founded, unduly complicated motions for summary judgment which the trial Judge took from June 8, 1951, to March 21, 1953, to decide, almost 2/5ths of the life of the reissue patent. This delay has resulted in substantial loss to plaintiff.

THE VERDICT SHOULD BE REINSTATED

The Judge instructed the jury that (R. 1452) "the case has been fully and fairly tried". In his oral opinion, the trial Judge, while criticizing (unjustly, we submit) counsel on both sides (R. 77-78), decided (R. 77) that the "jury listened carefully to the evidence and tried to render an honest and intelligent opinion" and that the verdict did not reflect any "prejudice".

The sole ground upon which the trial Judge acted in entering judgment n.o.v. was equally the sole ground upon which he conditionally directed a new trial; namely that in his opinion (R. 78) there was no "basis" for the jury findings, in the respects enumerated, on "liability" (i.e. validity and infringement) and "damages". *Whether there is "basis" for a jury finding represents purely a question of law. Hansen v. Safeway Stores*, F. 2d

, 110 USPQ 170 (9 Cir., June 27, 1956). Since, as demonstrated above, there was substantial evidence to support the jury findings on validity, infringement, and damages, the holding of the Judge below to the contrary was *error of law, vitiating equally the judgment n.o.v. and the conditional order for a new trial*.

In his opinion the trial Judge noted (R. 76) his "hope that another trial could be avoided". Thus, he observed (*id*) that were this Court presented only with "the questions of

validity and infringement" this Court "could reinstate the verdict if they thought that I had erred."

The trial Judge thought, however, that (*id*) this Court did not have such power because he held that there was "no rational basis for the amount of damages fixed by the jury". It is evident that the trial Judge has confused two types of case: (1) where the new trial is directed because of a ruling of law; (2) where the new trial is directed in the exercise of judicial discretion. This Court regularly reviews rulings of law made by the District Courts and if such rulings of law are in error it reverses; if the new trial was directed because of the District Court's erroneous ruling of law, this Court, in reversing, directs reinstatement of the verdict. It is only in the second type of case, where the new trial direction is discretionary, that it is not subject to ordinary appellate review. But, as we have seen, the trial Judge in this case directed a new trial *solely* because of his ruling of law that there was no "rational basis", i.e. no substantial evidence, for the damage verdict. This ruling of law by the District Court was, as we have shown above (pp. 57-64), clearly wrong; the ruling thus falls, collapsing, also, the new trial direction which was vitiated by that error.

Moreover, where a finding by the trial Judge is itself without adequate basis in the authorities and the record, error of law has been committed. We submit, that as shown above, the trial Judge's holdings, upon which the new trial direction as well as the judgment n.o.v. depends, fly in the face of the authorities and the overwhelming evidence; they are erroneous, therefore, for this reason, too, as a matter of law, and both the judgment n.o.v. and the new trial direction are without foundation.

Of course, even discretionary directions for new trial are reviewed and reversed where discretion has been abused, since it is axiomatic in this and in all other U. S. Courts of Appeals that abuse of discretion by a District Court con-

stitutes error of law. Basic rights under the statutory patent system and constitutional guaranty of jury trial are in effect subverted by the decision below. To the scores of Potter backers, for whom the trial Judge expressed sympathy (R. 78, 1505), and who have persevered in this cause for well over 25 years, the observation of Cox, *J.*, in *Roth v. Harris*, 168 Fed. 279, 283 (2 Cir., 1909) well applies: "Men do not struggle for years to secure a valueless thing." Two juries have already vindicated plaintiff (and its predecessor) against defendants (and their predecessor). As the trial Judge acknowledged, the case has been fully and fairly tried and the verdict does not reflect any prejudice. Surely, it is unjust to require plaintiff to seek vindication from a third jury. We submit that, as demonstrated above, the record and the authorities so clearly and fully support the findings of the jury that the Judge's conditional order for a new trial should be reversed for clear abuse of discretion.

So. Pac. v. Guthrie, 186 F. 2d 926 (9 Cir.) *cert den.*
341 U.S. 904;

Covey Gas & Oil Co. v. Checketts, 187 F. 2d 561
(9 Cir. 1951);

Estabrook v. Butte Anaconda & Pac. Ry., 163 F.
2d 781 (9 Cir. 1947);
28 U.S.C. §2106.

CONCLUSION

The judgment n.o.v. and the conditional direction for a new trial should both be reversed, and the verdict reinstated, with damages trebled against defendant, Admiral, and costs and reasonable attorneys' fees recovered from both defendants.

Respectfully submitted,

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Appendix A

Statutes

§103. *Conditions for patentability; non-obvious subject matter*

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made. July 19, 1952, c. 950, §1, 66 Stat. 798.

§112. *Specification*

The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.

The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof. July 19, 1952, c. 950, §1, 66 Stat. 798.

§282. *Presumption of validity; defenses*

A patent shall be presumed valid. The burden of establishing invalidity of a patent shall rest on a party asserting it. . . . July 19, 1952, c. 950, §1, 66 Stat. 812.

§284. *Damages*

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances. July 19, 1952, c. 950, §1, 66 Stat. 813.

§2106. *Determination*

The Supreme Court or any other court of appellate jurisdiction may affirm, modify, vacate, set aside or reverse any judgment, decree, or order of a court lawfully brought before it for review, and may remand the cause and direct the entry of such appropriate judgment, decree, or order, or require such further proceedings to be had as may be just under the circumstances. June 25, 1948, c. 646, 62 Stat. 963.

Appendix B

Record References For Facts Underlying Mr. Parker's Expert Opinion as to a Reasonable Royalty

1. "that such refrigerators were placed on the market in 1932 and were the first to provide in a single compact unit for household use a compartment for the preservation of fresh foods in a moist cold atmosphere above freezing temperature and a separate compartment for freezing and preserving other foods safely for long periods of time in frozen state at temperatures substantially below the freezing temperature; that such refrigerators for the first time brought refrigeration of a kind claimed to the home;"
 1. Bronaugh, R. 97-108; Bartlett, R. 252; Kobernuss, R. 426-434, 437; Bommer, R. 505; 515, 630-5; Quinn, R. 654-5, 665; Zimmerman, R. 708-9.
2. "that such refrigerator for the first time provided a household unit wherein, without the use of covered pans, the moisture of the foods stayed in the food instead of being dried out;"
 2. Kobernuss, R. 429; Bommer, R. 515-6; Quinn, R. 660, Zimmerman, R. 708-9, 716-21.
3. "that such refrigerators eliminated frosting and defrosting of the chilling element in the compartment for the preservation of foods at temperatures above freezing;"
 3. Kobernuss, R. 430, 495; Bommer 515-9, 527-8; Eger, R. 1048.
4. "that such refrigerators constitute the first major improvement in refrigeration for many years;"
 4. Kobernuss, R. 427; Bommer, R. 505; 632-3; Quinn, R. 660-2, 665, 677-8.

5. "that in such refrigerators the transference of odors from one kind of food to another is minimized;"
 5. Kobernuss, R. 429; Bommer, R. 517; Johnson, R. 1038.
6. "that such refrigerators constituted a brand-new idea in refrigeration, not just a new model;"
 6. Kobernuss, R. 427; Bommer, R. 505, 510, 519-20, 632-3; Quinn, R. 660, 677-8, 695-9; Zimmerman, R. 710, 713; Morton, R. 1002-3.
7. "that such refrigerators proposed such advantages that they were sold largely as replacement for conventional refrigerators;"
 7. Kobernuss, R. 434; Bommer, R. 521.
8. "that such refrigerators afford larger possibility or profit per unit to the manufacturer or his distributors;"
 8. Siragusa, R. 1023; Johnson, R. 1054.
9. "and that such refrigerators have a retail value ranging from \$359.50 to \$449.50 for Amana and \$389.95 to \$529.95 for Admiral, which is substantially greater than conventional refrigerators of comparable size;"
 9. Answers to Interrogatory by Admiral Ex. 4CC-1, by Amana 4DD.
10. "that the conventional refrigerators which had been produced in the United States in and prior to 1931 dried out the natural moisture of the foods stored therein because of the frosting of the chilling element within the food chamber, and that said fact had existed from the beginning of electrical refrigeration during which time a substantial amount of household electric refrigerators were produced in the United States;"
 10. Kobernuss, R. 426-34; Bommer, R. 515-20, 526-7, 630-5.

11. "that the largest manufacturer of household refrigerators in the United States which maintains a staff of trained competent specialists in various branches of engineering, devoting their entire time to experimental work for the further development and improvement of the company's products, which include items in addition to household electric refrigerators presented in 1930 as its solution of the problem of food dehydration in household refrigerators a covered pan having a small cubicle content as compared with the cubicle content of the food chamber in the conventional refrigerators;"
11. Bommer, R. 526-7, 529, 588, 628; Quinn, R. 654-6, 658-9; Zimmerman, R. 707.
12. "that the second largest manufacturer of household refrigerators in the United States, which also maintained a comparable staff of trained competent specialists attempted unsuccessfully at about the same time to place on the market two conventional refrigerators fastened together to minimize the same dehydration problem by operating said refrigerators simultaneously at different temperatures;"
12. Bommer, R. 526-7, 588; Quinn, R. 651, 658-60, 664-5; Zimmerman, R. 708-9, 716-21.
13. "that a patent alike in all respects to Admiral's Patent No. 2,636,228, Exhibit 19-CC, covering a rubber gasket for a refrigerator door had since 1952 been licensed to large rubber and refrigerator companies at a royalty of 2½% of the manufacturer's sales price;"
13. Douglas, R. 745-6.
14. "that in the years 1949 to 1953, inclusive, there were sold in the United States a quantity up to 165,000 such refrigerators covered by such hypothetical patent and the claims stated above".
14. Answers to Interrogatories, Ex. 4-CC-1 and 4-DD.

United States Court of Appeals

FOR THE NINTH CIRCUIT

No. 15,057

MOIST COLD REFRIGERATOR Co., INC., a corporation,
Appellant,
vs.

ADMIRAL CORPORATION, a corporation, and
AMANA REFRIGERATION, INC., a corporation,
Appellees.

PLAINTIFF-APPELLANT'S REPLY BRIEF

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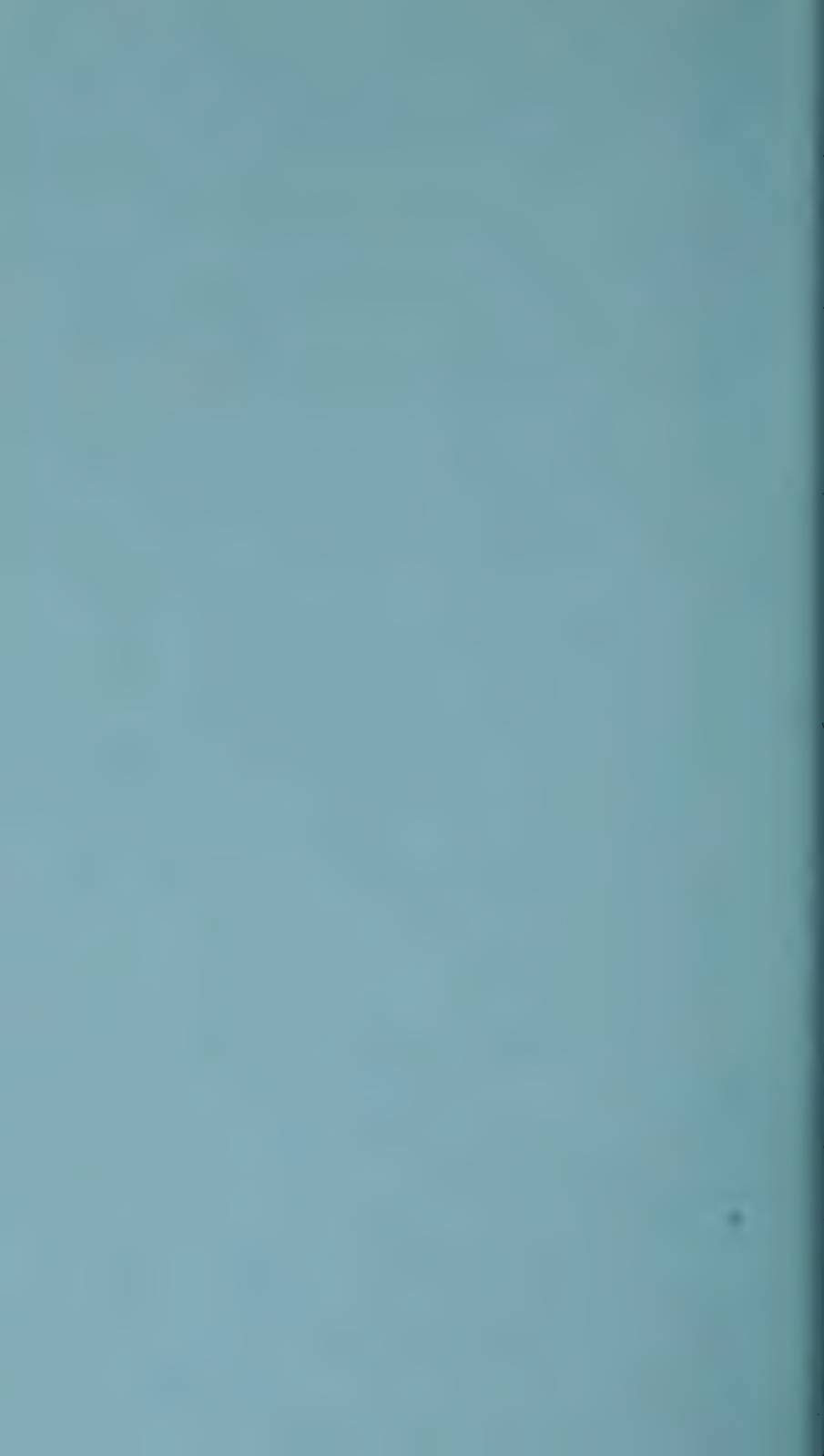
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Page IV line 10, change "210" to — 201

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PLAINTIFF-APPELLANT'S REPLY BRIEF

Defendants introduce their Brief (D. Br. 1-3) with an officious and unnecessary defense of Judge Solomon. Our Brief was a vigorous attack on the decision below, not on the Judge who made it. Plaintiff's appeal is the contrary of *ad hominem*: we urge reversal for clear error of law. But defendants' introductory argument is itself *ad hominem*; it seeks to enlist on defendants' side sympathy for the trial Judge, whereas neither the Judge personally nor sympathy for him has anything to do with the merits.

Defendants' talk about Judge Solomon betrays lack of confidence in their defense on the issues. We prefer to argue the issues, and shall continue to do so in this Reply, wherein we demonstrate that defendants' position is based on misstatement of many material facts, disregard of others, and complete failure to face up to the governing law, including the rule, to which they give only lip service, that the verdict of the jury has resolved evidential conflicts in plaintiff's favor.

The Defense of Anticipation Was Properly Rejected by the Jury and the Trial Judge

Of the four claims in the Potter patent, defendants argue that two, claims 1 and 2, were anticipated. This defense, rejected by the trial Judge as well as the jury, asserts full anticipation by, respectively, Anderson and Davenport of the entire Potter combination.*

(1) Potter, Unlike Anderson and Davenport, Solved The Dual Humidity Problem.

The Potter patent taught a direct expansion refrigerator in which refrigerant under pressure pre-set to evaporate in both evaporators at below 32° F, simultaneously and

* That elements of the combination are separately old does not, of course, show anticipation. *Refrigeration Engineering Co. v. York*, 9th Cir. 168 F2d 896, 899.

continuously maintains below 32° F on the heat-exchange surface for the freezing compartment and above 32° F on the heat-exchange surface for the cooling compartment. Thus the Potter patent solved the dual humidity problem in an all-purpose household refrigerator, eliminating defrosting, since the “slight amount of frosting where the cooling coil 25 enters the compartment 14” (P.Ex. 2, col. 6, lines 1-5) was of no practical moment. The Potter patent carries a mandate against objectionable frosting; and the refrigerators made under the patent are free therefrom (P.Br. 22 *et seq.*)*. For a complete refutation of defendants’ assertion (D. Br. 26) to the contrary see the references under points 1, 2, 3 and 10 in Appendix B, our main Brief, particularly R. 108, 254, 430, 437, 515, 518 and additionally R. 761 and 1336-7. See *Sanitary Dist. v. Activated Sludge*, 7th Cir., 90 F2d 727, 729; *Rynear v. Evans*, 83 Fed. 696, 697.

To show anticipation by Anderson and Davenport, defendants have the burden of establishing that they likewise solved this dual humidity problem. Now the indisputable fact is, that there is no proof at all on the actual operation of any refrigerator built according to the teaching of Anderson or Davenport. Moreover, the *Anderson patent* (D. Ex. 105) and the *Davenport patent* (D. Ex. 107) are completely silent on the humidity problem and do not in any way purport to solve it. At most, therefore, the position that Anderson and Davenport anticipated is the merest conjecture, untenable in fact and in law. *Pointer v. Six Wheel Corp.*, 9th Cir., 177 F 2d 153, 160-162. Defendants seek to show the contrary by a semantic confusion between a ‘cooling’ compartment and a ‘moist cold’ compartment. While Anderson and Davenport show ‘cooling’ compartments, *they were not shown in the patents, or in the record, to be moist cold*. The assertions otherwise in defendants’ Brief are based on distortions of the Anderson and Davenport patents, to which we now turn.

* There are from 30 to 60 fins in the refrigerators Potter built (R. 769, 771) and that there was “some frosting on one and I believe two of the fins . . . a slight frost” (R. 1366) is *de minimis*.

(2) Defendants Distort Anderson and Davenport.

(a) Anderson

In defendants' discussion of the Anderson patent, they quote from it only twice. At D. Br. 25 in a footnote, the claim quoted is not asserted even by defendants to have any bearing on non-frosting and it plainly does not. At D. Br. 29, defendants quote Anderson as mentioning "dripping from the coil" and defendants argue from this:

"obviously it was not contemplated that this coil 40 would '*necessarily*' be at a temperature below 32° F. but that it would *normally* be above 32° F. because that is the only condition under which dripping could take place." (Italics supplied)

This is false, since dripping would take place *when the motor was not running*, whether on a defrost cycle, or shut down for defrosting, or for any other reason (R. 623-4). Then, no refrigerant would reach the evaporator in the cooling compartment, of course; its surface temperature would gradually rise above 32° F. and the frost accumulated on said coil would tend to melt and drip therefrom.

Defendants argue (D. Br. 26):

"Anderson is 'nonfrosting' in the same sense as Potter. Both frost to a degree, depending on the adjustment of the adjustable expansion valve (33 in Anderson; 23 in Potter)".

This is just plain wrong with respect to both Potter and Anderson. Potter solved the humidity problem, not by adjustment of the expansion valve, but by a structural innovation: two balanced coils with different surface extensions, respectively, for the freezing and the cooling compartments (R. 761-2). And Anderson did not solve the humidity problem, for the reason that he had only a bare duct evaporator for both those compartments. With such bare duct evaporator, *no adjustment of the expansion valve in Anderson will solve the humidity problem.* (i) Suppose the pressure is set, by adjustment of the expansion

valve, to evaporate refrigerant at below 32° F., to get a coil surface temperature of below 32° F for the freezing compartment. A like temperature will obtain on the surface of the same coil in the cooling compartment up to whatever point in the coil the liquid refrigerant reaches and evaporates, with the consequent dehydrating effect (R. 825-6, 866-9, 1243-4); beyond this point there is no substantial cooling effect, for the expanded gas absorbs little or no heat (R. 1196). Thus, on the assumed valve adjustment, the freezing compartment will have the desired below 32° F, but the cooling compartment will either frost (if liquid refrigerant gets to the coil in that compartment) or not be cooled (if the liquid refrigerant is not permitted to get as far as the coil in that compartment).^{*} (ii) Suppose, alternatively, the pressure is set, by adjustment of the expansion valve, to evaporate refrigerant at above 32° F to avoid dehydration in the cooling compartment. A like temperature will then obtain in the freezing compartment, in which event the frozen storage will be lost, for above 32° F will not freeze ice cubes or provide frozen storage.

In short, no adjustment of the expansion valve in Anderson can provide, simultaneously and continuously, dry cold in the freezing compartment and moist cold in the cooling compartment. Defendants desperately seek to rely on an adjustment of the expansion valve in Anderson which will give dry cold only, or moist cold only, throughout his refrigerator, and to conceal the indisputable fact that no

^{*} The thermostat in Anderson's cooling compartment can turn the machine off before the cooling compartment temperature reaches 32°F; but, while the machine is not turned off and liquid refrigerant is evaporating in the coil in the cooling compartment, that coil surface will be at below 32° F, and therefore pumping moisture from the air and food in the cooling compartment (R. 518, 1192, 1265). Once moisture is pumped out of foods, it is not replaced on a defrost cycle, so even periodic frosting must be prevented (D. Ex. 106, Larkin Pat. p. 3, Col. 1, lines 11-14), which Potter did.

adjustment of his expansion valve will provide moist cold and dry cold *at the same time*.

As defendants implicitly recognize (at D. Br. 30, first par.), they cannot show that Anderson anticipates unless they can show that Anderson used extended surfaces on the coil in the cooling compartment to get a surface temperature above 32° F at the point where refrigerant is evaporating at below 32° F. Undaunted, they endow the section of the Anderson coil in the cooling compartment with *imaginary* extended surfaces, without any support whatever. Thus they point (*ibid*) to the fact that Anderson's cooling compartment has a greater *length* of the coil than his freezing compartment and hope to mislead the Court into confusing coil length with extended surface. A longer coil, unlike an extended surface *on that segment of coil* where the liquid is evaporating, does not concentrate heat *on that segment* to produce a higher coil surface temperature than the temperature of the refrigerant evaporating within it. Then they say (*ibid*) the coil is "mounted against" the metal lining and "adjacent" a wire netting, of Anderson's cooling compartment, making this metal liner and wire netting an extended surface. There is *no proof whatever*, in the Anderson patent or elsewhere, that Anderson's metal liner or wire netting is in *tight thermal contact* with the coil. That is necessary to provide an extended surface (R. 621-2). On the contrary, Fig. 2 of Anderson shows the whole coil as an independent structure, not in thermal contact with any heat exchange structure for the cooling compartment. Anderson, unlike Potter, shows no means of concentrating heat at the segment of the duct (for the cooling compartment) where below freezing refrigerant evaporates.*

* In Anderson the thermostat had to be in the cooling compartment to shut off the machine before the food therein, already dehydrating because of a frosting coil, was completely ruined by a compartment temperature below 32° F. Potter provided greater flexibility in the use of the thermostat: since the extended surfaces could be relied on to prevent these undesirable phenomena, the thermostat could safely be placed in either compartment according to other factors bearing on efficiency and economy.

Despite defendants' denial (D. Br. 25) we believe the witnesses were in agreement that the Anderson coil had to frost (References in P. Br. 20). Thus Bommer testified (R. 626) that Anderson, unlike Potter, had to be defrosted. Defendants offer no proof to the contrary and the burden was theirs. In any event, the Anderson patent itself negates anticipation. Had Anderson obtained two different *coil* surface temperatures continuously and simultaneously, or otherwise solved the humidity problem, *he would have said so*. His patent is completely silent on the problem. Anderson failed, entirely, to anticipate any invention of the Potter patent (R. 624, 824-6).

(b) Davenport

Davenport patent No. 1,726,344 (D. Ex. 107), like Anderson, (i) is completely silent on the humidity problem and makes no attempt to solve it and (ii) makes no disclosure of or claim to two different *heat-exchange surface* temperatures, simultaneously and continuously, one below 32° F for the freezing compartment and the other above 32° F for the cooling compartment. The only record reference defendants give (D. Br. 36), in an effort to show the contrary, is the patent itself, page 3, lines 13 and 14. But the patent, in speaking here of "ordinary refrigerating temperatures," is plainly talking about the ordinary compartment temperatures in the conventional household refrigerator; namely, above 32° F in the *air* of the cooling compartment but below 32° F *at the heat-exchange surfaces, with consequent frosting of the coil and dehydration of the food in said compartment.**

* More precisely, Davenport used the phrase "ordinary refrigerating temperatures" to refer only to the temperatures of the air in the compartment *and not at all to extended surface temperatures*. This is shown by the context in which the phrase occurs (p. 3, lines 6-17). The sentence in question refers to the "*chamber* from which heat is to be extracted" and suggests how to "secure" an economical "contact area for heat removal to maintain ordinary refrigerating temperatures". Maintain them where? Obviously in the "*chamber* from which heat is to be extracted". (Underscoring supplied).

In fact, Davenport filed patent (No. 1,731,711, D. Ex. 109) "as an improvement and further development" (p. 1, lines 20-26) of No. 1,726,344 ("Serial No. 105,372"), based upon the very fact that the cooling evaporator of No. 1,726,344 *frosts*.^{*} The entire substance of his "development" of 1,726,344 is that during "de-frosting" "the frost is there-upon automatically transferred . . . to the freezing element . . ." (id. at p. 2, lines 81-94).^{**} Moreover, Davenport *after* applying for Patent No. 1,726,344 applied for another patent (No. 1,769,112, D. Ex. 101) in which he stated that it was "impossible" to do what Potter actually did; *viz.*, use only a single below freezing evaporating temperature and get balanced above and below freezing heat-exchange surfaces.

Defendants' defense of anticipation by Davenport is not only wholly unsupported, but is reduced to the absurdity of asserting that Davenport had done what he himself later said it was impossible to do.

Defendants (D. Br. 37) quote the axiom from *Knapp v. Morss*, 150 U.S. 221, 228:

"that which infringes, if later, would anticipate if earlier"

and characterize the Potter patent as "a desperate effort to reclaim its [Davenport's] monopoly" and the "monopoly of Anderson" (D. Br. 38, 25 note). But neither Anderson nor Davenport could possibly infringe any claim of Potter, for neither has "a humidity whose relative value is at least 100% at 32° F"; nor any "heat-conducting surfaces within said cooling compartment constructed and

* There is no extended surface unless the total heat exchange area exposed to the air to be cooled exceeds the area of that portion of the evaporator which carries the refrigerant. There is no proof that this is so of Davenport's "extended element", which is not different in principle from Anderson's lengthened coil (*supra*, p. 5). Despite Davenport's own admission of frosting, defendants have the temerity to imply that "extended element" means the same as "extended surface" (D. Br. 35, 36). An extended element serves Davenport's objective (maximum heat absorption in minimum cubic space) but not Potter's.

** No. 1,731,711 (p. 1, line 53) also describes No. 1,726,344 as "utilizing the vapor-gas principle" (not the single refrigerant principle of Potter).

arranged to maintain . . . a temperature above 32° F'' (Potter patent, all claims). Equally clearly, there could be no such infringement, by Anderson or Davenport, of claims 3 and 4 of Potter which call for "insulation around said cooling compartment offering less resistance to flow of heat thereto" than around the freezing compartment co-acting with "a thermostat responsive to the temperature in said cooling compartment."

Had defendants' devices followed the expired Anderson or Davenport patents, they would not infringe Potter.

The Defense of Lack of Invention Is Unsound in Fact and Law

Our main Brief (2-7, 11-12, 15-44, and 74-76) shows in detail, that the four claims of the Potter patent defined a new combination which for the first time provided a practical, dual humidity household refrigerator, avoiding manual defrosting, and which fully satisfied all the applicable standards of invention. Contrary to defendants (D. Br. 15-16, 34), this is no "shift" from our position at the trial (see record references in P. Br., Appendix B, points 1, 2, 3, 6). Defendants quote Mr. Parker out of the context (R. 851-2) where he pointed out that it was "not . . . proper to say that his [Potter's] improvement over the art consisted merely in" "providing the coil in the cooling compartment with fins". Fins are only one form of extended surface for a non-frosting coil which is only one element in the Potter combination (R. 1232, 986, 940-1, 761, 128, 153, 192-3). Defendants do not even attempt to show lack of invention with respect to claims 3 and 4. As to claims 1 and 2, their points (D. Br. 38, 43-46, 50-56, 70-71) are plainly not well-taken.

In substance defendants' position boils down to the following assertion: the Potter advance over Anderson or Davenport was not beyond the skill of the ordinary mechanic in the refrigeration field, "particularly in view of the Larkin patent" (D. Br. 38-43).

If the advance was obvious, why did not Anderson or Davenport or anyone else of the many refrigeration engineers make it? Why did such skilled workers as Lundgaard

(D. Ex. 110), Curtis (D. Ex. 101) and Barnes (D. Ex. 101) use air as the medium? The industry was so aware of this need that the Food Council of America was organized to defend dry cold (P. Br. 18-19) or cure it for all electrical refrigeration manufacturers. It was so far from being obvious, that Davenport, holder of many refrigeration patents, said that under the limitation of "a constant temperature-pressure level" for evaporation of a volatile refrigerant, "it is impossible to produce differential refrigerating effects with a single pump" (D. Ex. 101: Patent No. 1,769,112 [in Exhibit Book], p. 1, col. 2, lines 69-89). Since this is just what the Potter patent did *defendants are in the position of asserting that an advance over the prior art is obvious although that prior art taught that said advance was impossible*. Potter's reversal of prior thinking in the art, alone demonstrates invention. See *Pointer v. Six Wheel Corp.* 9th Cir., 177 F2d 153, 161, where this Court said of the inventor "*He was an innovator not a follower*".

The Larkin patent* in no wise helps extricate defendants from this absurdity. In the first place, the Larkin patent was on a single compartment refrigerator. *It taught nothing about maintaining moist cold and dry cold simultaneously and continuously in a unitary machine*. Secondly, it was based on a float valve or flooded system (p. 2, col. 1, lines 44-47) in which, unlike a direct expansion system such as in the Potter patent (Potter patent, col. 5, lines 16-19; R. 1264-5), the pressure-temperature level at evaporation is not fixed (R. 1281, 518, 1192, 1265). So Larkin taught nothing about how to get differential refrigerating temperatures or humidities *where the refrigerant is kept at a constant pressure-temperature level of evaporation* as in the Potter patent. Starting with this fixed point, Potter balanced different heat-exchange surfaces to get the novel correlation of three elements necessary for the novel result (P. Br. 26).

* The Larkin patent and Davenport patent No. 1,726,344 were not cited against the Potter application, since, as stated in *Artmoore Co. v. Dayless Mfg. Co.*, 7 Cir., 208 F. 2d 1, 4, "they were considered and cast aside because not pertinent". (Davenport was distinguished in the *Stewart-Warner* case).

Because maintenance of moist cold and dry cold, simultaneously, with only a volatile refrigerant evaporating at below 32° F. in a direct expansion system, was for years a recognized, unsolved problem prior to the invention of the Potter patent, (P. Br. 17-28; 74-76), *the facts of history conclusively show that the invention was not obvious*. The cases (P. Br. 38-41) fully support this proposition. Defendants wholly fail to meet and misinterpret these authorities. Defendants' argument (D. Br. 70-71) that the Potter patent was not a "commercial success" is no answer and wide of the mark. That the technical problem was recognized and that skilled engineers sought to solve it—unsuccessfully—until the Potter patent taught the industry the solution, sufficiently show lack of obviousness.

There is no question that the Potter refrigerators had an important impact on the industry. Plaintiff's Ex. 3KKK in the exhibit book, is a market acceptance survey comparing the patented refrigerators with others then (1935) on the market. There is the testimony of the G. E. people as to the impact on the two largest refrigerator manufacturers. See our Brief pp. 28-30. Admiral alone is here shown to have received over \$40,000,000.00 for refrigerators embodying the invention of the patent, *during its short five year life* (R. 396-7, 564-5, 704-5, 714, 1048).

The Potter patent taught the industry the solution, and the industry had the commercial success. The Potter invention has become a "must" as a type of household refrigerator (R. 710). Defendants' position amounts to saying no more than if they can avoid paying for a license and the patent owner is driven out of business, there is no commercial success attributable to the invention so appropriated. This is sheer nonsense.

Defendants state (D. Br. 43-46) that the Potter patent does not meet the *A. & P.* test, but they blithely ignore plaintiff's detailed record analysis (P. Br. 24-28) and the cases (P. Br. 30 *et seq.*) showing that *the Potter patent taught a new combination comprising a new structure having a new mode of operation and function and achieving long sought new results*. (*Supra*, pp. 1-2; P. Br. 25 *et seq.*)

Defendants' cited cases do not support their position. Thus the *Refrigeration Patents* case (D. Br. 45-56), upheld the *invention* here but held the now surrendered original claims defective on the ground of functional statement (see opinion of this Court, 217 F. 2d at 40). We do not understand the point of the dictum quoted. Clearly, a "non-frosting coil" is an element like a thermostat or a valve. No-defrosting like no-dehydration is the beneficial result. That it can be *made* to frost, by maladjustment of the expansion valve, does not (contrary to D. Br. pp. 32-56) make the non-frosting coil a result (See R. 224).

The *U. S. Air Conditioning* case (D. Br. 46) is altogether different from our case on the facts and states no rule inconsistent with plaintiff's position. *Berkeley Pump v. Jaccuzzi* was discussed in our main Brief (P. Br. 38) and defendants have not expressed any disagreement with the accuracy of that discussion. In that case, two separately operable pumps were operated together; whereas (contrary to D. Br. 46) Potter did not aggregate separately operable freezing and cooling compartments. The Potter patent combination is a single novel heat "pump" for accomplishing the dual function of providing continuous moist cold and continuous freezing and eliminating the need for manual defrosting. Potter, unlike *Jaccuzzi*, solved a recognized industry problem (P. Br. pp. 19-22, 28-30).

Defendants, relying on hindsight, have plainly mistaken simplicity for obviousness. *Patterson-Ballagh Corp. v. Moss*, 9th Cir., 201 F. 2d 403, 406. The Potter patent was not obvious. Obtaining incompatible (above 32° F. and below 32° F.) heat exchange surface temperatures with the same refrigerant evaporating at well below 32° F. involved subtle interrelation of factors and represented invention of a high order. The very simplicity of the principle in operation speaks well for it as a genuine advance beyond ordinary skill, *Flakice* quoted in our Brief (P. Br. 40).

The Defense of Non-Disclosure Is Untenable

This defense is predicated wholly on the false premise that the invention claimed is the *fin*, whereas the invention

is for a *combination*, one of whose elements was an extended surface, or non-frosting coil (a radial fin coil being only one exemplification of such element) (D. Br. 47-49, 50). We submit that our discussion of the disclosure point (P. Br. 44-49) has been wholly ignored in defendants' Brief because they have no answer to it.

The Defense of Functional Statement Is Sham

This defense of functional statement of claims (D. Br. 49-50) is not in the case any more, since defendants expressly abandoned it below, before the case went to the jury (R. 1489). We presume defendants withdrew the defense because even they recognized that it was unsound under *Faulkner v. Gibbs*, 338 U. S. 267 and §112 of the Patent Code, as applied to the combination claims of the reissue patent. Their unwarranted attempt at this late date to slip the defense back into the case further serves to show their irresponsibility and bad faith.*

The Defense of Vagueness of Claims Has No Substance

The defense of vagueness of claims is stated (D. Br. 50) without any particularization whatever. Our discussion of the point (P. Br. 49-50) is simply ignored by defendants as they have no answer to it. The invention was claimed clearly and precisely. It was neither a fin nor a brine tank *per se*.

Late Claiming Was Properly Rejected Below

This defense of late claiming, properly rejected by the District Court,** is based on three misconceptions: (1) the applicable law, (2) the date of first commercial sale of a refrigerator embodying the invention, and (3) the earliest filing date plaintiff is entitled to.

* The claimed element is a non-frosting coil "construction" and "arrangement" (not a result), properly specified in its relation to the novel assemblage of parts (R. 865-6, *supra*, p. 11).

** The *General Electric* decision, on motion as to only claim 11 of the original patent, was based upon no facts like those of record here. Also, that claim was surrendered in 1948. See the record on the former appeal, pp. 85-9.

(1) Under *Muncie Gear v. Outboard*, 315 U.S. 759, a claim is not invalid for delay of over two years in presenting it (under the law applicable to our case) after a public sale or use of the device of the claim, when, as here, the first *disclosure* was made to the Patent Office within that period. It is the disclosure date that counts.*

Such disclosure is sufficient if an apparatus be clearly so shown, by the specification and drawings, as to have a certain operating characteristic not named or mentioned in the specification. *Bickell v. Smith-Hamburg-Scott*, 53 F. 2d 356, at 358 (C.A. 2). An amendment to the specification is justified by reference to the first drawing, for as stated in *Wagenhorst v. Hydraulic Steel*, 27 F. 2d, 27, 31 (C.A. 6):

“What clearly appears by a drawing though not fully described may be a sufficient disclosure (citing cases). To insert by amendment a fuller description of what completely appears by the original drawing and was intelligibly described is not to insert new matter (citing cases)”.

The defendants have the burden; and the administrative determination of the Patent Office in allowance of an amendment without objection to it as containing new matter, is entitled to great weight in this connection. *Bickell, supra*.

(2) Defendants (D. Br. 57) cite the testimony of Bade, given from unaided memory, that the “Barry box” was sold in June, 1930. But defendants ignore the documentary evidence that Potter was not billed for work done in construction of the “Barry box” until November 20, 1930 and December 18, 1930 (R. 297-298). Bade’s unassisted memory was clearly faulty in placing the *sale by* Potter six months

* *Accord: Jacquard Knitting Machine v. Ordnance Gauge*, 95 F. Supp. 902, 108 F. Supp. 59, 213 F. 2d 503 (C.A. 3). See also: *Proctor and Gamble Mfg. Co. v. Refining Inc.*, 135 F. 2d 900, (C.A. 4); *R.U.V. Engineering Corp. v. Borden Co.*, 170 F. 2d 688, (C.A. 2).

prior thereto. The dates of the bills support Potter's testimony, also ignored by defendants, that the Barry box was built about October 30, 1930 and that, since the "Barry box" stayed on Potter's floor for a long time after it was built, it was not sold until about October 1931 (R. 300-301).

(3) Thus the only sale defendants point to was well within two years of December 2, 1932 when defendants admit (D. Br. 57) a "non-frosting" coil was mentioned. A "non-frosting" food storage compartment is named in the originally filed specification (D. Ex. 101, p. 16). Disclosure adequate to support claims 1 and 2 of the reissue patent in suit was clearly made in the very first application for the original patent, which application was filed February 16, 1931 (D. Ex. 101, p. 1). See also P. Br. 44-49.

With respect to claims 3 and 4 of the reissue patent the drawings in that first application clearly showed less insulation around the cooling compartment than around the freezing compartment with the thermostat actuated by the temperature in the former. The specification, therein, described the said operation of the thermostat, (D. Ex. 101, p. 5). The original specification stated: "Any suitable insulating material 33 is employed in the construction of the cabinet. The relation of the various compartments may of course be varied." (D. Ex. 101, p. 6). These words were replaced by the clarifying and amplifying description indicated on D. Ex. 114M, see R. 1202. The "relation" referred to, in connection with the diagram can only be the proportional thickness of insulation. The specification as originally filed also teaches that "the efficiency of the freezing unit will be increased as the rate of heat pumping from the food compartment increases" and that "the more the cooling compartment is used the greater will be the efficiency of the cold storage and freezing compartments" (D. Ex. 101, pp. 3, 7). Originally filed claim 5 specified "control means actuated by temperatures in said cooling compartment" (D. Ex. 101, p. 8). See also claims 8, 10 and 12.

Less insulation around the food (i.e. cooling) compartment increases the heat pumping because the thermostat

is responsive to temperatures in the cooling compartment. Thinner insulation compensates for periods of decreased use of the cooling compartment to assure against too high temperatures in the freezing compartment. Plainly, the original application as filed in 1931 taught this operating characteristic now claimed in claims 3 and 4 and fully explained in the specification of the reissue patent. It was not taught by any prior art*; namely, the effective coaction of a thermostat directly actuated by the cooling compartment with proportionately *thinner insulation* around said compartment than around the freezing compartment.

In sum, the defense of late claiming requires defendants to prove affirmatively *both* the date of public sale and the date of disclosure. We submit that *neither* has been proved. Additionally, the administrative decision of the Patent Office holding the fuller description to be not new matter, is presumptively correct and the patent is entitled to its filing date of February 16, 1931 for the explanations added in 1934.

The Defense of No-Infringement Fails

The mere fact that a claim "reads on" an accused device or a prior art device does not determine infringement or validity. See *Himes v. Chadwick*, 199 F. 2d 100, 103 (C.A. 9) and *Bianchi v. Barili*, 168 F. 2d 793, 799 (C.A. 9).

The use of words in parallel columns in defendants' exhibits and brief to show alleged non-infringement and alleged anticipation is not helpful—"the letter killeth but the spirit giveth life", *Bianchi, supra*.

This is the very basis for the doctrine of what is an equivalent, concisely stated in *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605, 608:

* Defendants' note (D. Br. 57) refers to Davenport patent No. 1,769,118, Fig. 1, which describes a layer of cork board around freezing *element* 9, but not the freezing compartment C (p. 2, lines 71-6) and which uses no thermostat. Defendants also argue that Anderson has a "difference in heat leakage" because of wall areas. This is not a difference of insulation.

“If two devices do the same work in substantially the same way and accomplish substantially the same result they are the same, even though they differ in name, form or shape.”

The testimony of Mr. Parker respecting infringement is so specific and informative, that we refer the Court particularly to Mr. Parker’s testimony at R. 798-820; 886-904; 928-935; 938-941; 1346-1367; 1375-1379.

The admissions of defendants in their service manuals and in the Morton patent covering the accused structures support Mr. Parker’s testimony. The points of disagreement between the expert witnesses are graphically shown by the circles marked on D. Exhibits 114-A through 114-R, copies of which are in the exhibit book.

(1) Cold Wall

We show that the accused structures had the same means, operation and result as the Potter patent.

Whether cold wall is a different type from a finned type expander is not the point. They were both known means of extending the coil’s heat-withdrawing surface (R. 904-5). Nothing in defendants’ brief, pp. 58-70, establishes otherwise. Nor do defendants show any difference in mode of operation or result from the extended surfaces of the Potter patent which is not limited to any particular type of extended surface.

What the patent taught and claims is precisely embodied in the accused refrigerators; namely, two compartments cooled by differently constructed heat exchange surfaces maintained above and below freezing but operated on a single below freezing refrigerant from a single liquefying unit.

In D. Br. Plate V* defendants use the single letter “C” to mask what are in fact *two coils in series*,** one thermally in contact with the liner of freezing compartment A, the other, below and thermally in contact with transfer plates

* A perversion of P. Ex. 8A-1 upon which Parker marked the parts with the reference numbers of defendants’ Morton patent.

** Numbered 100 and 102 respectively in Morton patent 2,586,853, see fig. 4.

H and G to withdraw heat from the cooling compartment B. Heat is collected by the liner of B and coils D and focused through G on that part of Coil C which is attached to primary plate H. The whole system: B's liner, D and G, shown separately at left, is well coupled thermally to primary plate H and its section of coil C. That system is merely an elaborate fin or extended surface for the cooling section of duct C attached to plates G-H which are insulated from and positioned vertically (not "horizontally" as defendants state) well below the freezing liner A. Thus, plates H and G and their associated circuit D, are coupled to liner of B which is the heat exchange surface of the section of duct C for the cooling compartment. This section of C for cooling is in series with the section of C for freezing, just as are Potter coils 25 for cooling and 22 for freezing.

So the inventive concept is embodied in the accused devices, just as it is claimed and disclosed in the patent in suit. All claims call for heat exchange surfaces above and below freezing. These are defendants' two liners B and A which function as heat exchange surface extensions for the respective, separately insulated* sections of duct C, which are in series and contain the sole refrigerant which "withdraws" any heat from the accused refrigerators (R. 792-5). The separate secondary circuit itself withdraws no heat from the cooling compartment, just as radial fins *per se* withdraw no heat. It must be operated on a controlled refrigerant expanding and condensing system, of course, to dissipate heat outside of the insulation. Defendants' secondary just cannot by itself do that.

At the trial, and now in their Brief (D. Br. 60 *et seq.*), defendants played upon the words of all claims that the expanders for both the cooling and freezing compartments must have heat conducting surfaces "*within*" said compartments and contended strenuously that neither of defendants' liners was so "*within*" their respective compartments. A special interrogatory was framed and this point was

* D. Br. plate IV shows insulation separating the two sections of coil C, which makes these sections two separate coils in series, as in Potter.

expressly overruled by the jury's answer. The trial Judge's opinion accepted the jury verdict on this point by failing to state the contrary. Plainly any surface extension which is "within" the protecting insulation is within the refrigerated compartment. Insulation is the outer boundary of such compartment.

There is nothing "fantastic" about Mr. Parker's clear and detailed testimony showing infringement by defendants' accused devices (R. 779-826). It was subject to the most searching cross-examination, and never answered by Muffly. The scattered record references (D. Br. 59-65) are highly misleading as examination will show. Basically, defendants confuse bare duct or tube surfaces with Admiral's extended heat-exchange surfaces. As Admiral's Morton said at R. 986:

"Q. Your liners are a so-called secondary heat-exhausting surface, are they not, in the Admiral Model 1090 and later models?"

A. In the same way that a floor is a secondary surface in a floor-heated building."

(2) The Liquefying Unit

Our main Brief (P. Br. 53-57) demonstrates that the accused structures had but a single liquefying unit *of the kind defined in the claims of the patent in suit*. Defendants' discussion (D. Br. 66-68) wholly fails to meet plaintiff's analysis, and is misleading because defendants do not quote the complete claim element in question (cf. D. Br. 66 with P. Br. 55).

The accused refrigerators, like the Potter patent, embody separate, but in series, coils (i.e. the two sections labelled C by defendants attached respectively to A and H—see above pp. 16-17) for the same liquefied refrigerant, which is expanded by heat extracted from both compartments by means of which dual humidities are maintained.

The separate refrigerant in coil D is liquefied by operation of the *primary* circuit to cool plate H and that section of coil C attached to H. Heat collected by the cooling com-

partment extended heat exchange surfaces is extracted through but not by G. That is done by the whole primary system, which also extracts heat from the freezing compartment to the outside atmosphere. Such heat is dissipated by the liquefying unit E, F which alone satisfies the language of the claims.

The Defense of No-Rational Basis for Damage Verdict Fails to Meet Plaintiff's Contrary Showing

While defendants assert (D. Br. 72-3) that the damages found by the jury were without rational basis, we submit that they have clearly failed to meet plaintiff's contrary detailed showing in its main Brief (P. Br. 57-64, 74-76). Anderson, Davenport and Larkin notwithstanding, the Potter patent was a brand new idea in refrigeration: a practical, dual-humidity household refrigerator, with no manual defrosting, which Admiral appropriated and used for over 40 million dollars of sales, in only a five year period.*

Admiral's Infringement Was Wilful

That Morton, Stewart-Warners designing mastermind, was deliberately used by Admiral with Muffy's aid, to come even closer to Potter than the Stewart-Warner infringement, is a sufficient reply to defendants' section VI (D. Br. 73-75). He testified, R. 1002-3:

“Wasn't it a fact, Mr. Witness, that the Potter two-temperature refrigerating system spurred the interest of Stewart-Warner in this two-temperature refrigerator field? Don't you know that is a fact?”

* * * *

“A. I can answer the question on the basis that at no time do I recall anyone at Stewart-Warner bringing up any other two-temperature refrigerator in development.”

* That this was the principal feature relied on by Admiral see R. 1048.

The facts are adequately stated in our Brief, pp. 64-66. The reference to Mr. Siragusa's claim to Admiral's "respect" for patents is refreshing in the light of his company's history in the courts. See that part of his cross-examination at R. 1029-30. See also *Hazeltine v. Admiral*, 7th Cir., 183 F. 2d 953, cert. den. 340 U.S. 896, and 916.

The Bad Faith of the Defense

The bad faith of the defendants' defense (P. Br. 66-68) is further shown on this appeal by their seeking to raise the defense of functional statement of claims here although they had already withdrawn this defense.

CONCLUSION

Defendants have simply ignored our showing (P. Br. 68-70), from the governing authorities and the record, that: (1) a conditional order for a new trial, like a judgment n.o.v. is reviewable for *error of law*; (2) the conditional order entered below for a new trial, like the judgment n.o.v., was vitiated by error of law; and (3) with respect to said conditional order, either no discretion was sought to be exercised, *because the opinion below gave only law grounds for the action taken by the trial Judge*, or, in the alternative, the aforesaid error of law included clear abuse of discretion. *The record so fully supports the verdict that setting it aside was arbitrary and capricious.*

The judgment N.O.V. should be reversed and the verdict reinstated, with treble damages against Admiral, and costs, including attorneys' fees, in this Court and the Court below, awarded plaintiff-appellant.

Respectfully submitted,

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United States
COURT OF APPEALS
for the Ninth Circuit

MOIST COLD REFRIGERATOR CO., INC., a
corporation,

Appellant,

vs.

LOU JOHNSON CO., INC., a Corporation; MEIER
& FRANK COMPANY, INC., a Corporation;
ADMIRAL CORPORATION, a Corporation,
AMANA REFRIGERATION, INC., a Corpora-
tion,

Appellees.

BRIEF FOR DEFENDANTS-APPELLEES

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BRIEF FOR DEFENDANTS-APPELLEES

INTRODUCTION

Appellant has seen fit to charge Judge Solomon with gross abuses, and throughout its brief has characterized him as being precipitous, confused, inaccurate, fallacious and completely ignoring the evidence. At one point, appellant states in its brief, page 57, that Judge Solomon's opinion is "a conglomeration of unsupported statements and fallacies. The opinion below evidences a disregard of logic, law, and the facts of record. We next turn to the equally arbitrary decision on damages." Again, on page 63 of its brief, appellant characterizes Judge Solomon as "basing exclusive reliance on his jaundiced view."

Such *ad hominem* attack is good indication of the weakness of appellant's case and the unjustness of its cause. Even a cursory reading of Judge Solomon's opinion (R. 72-78) and his instructions to the jury (R. 1449-1486) refutes these completely fallacious charges. The Judge's opinion and instructions establish that he was keenly aware of the facts in the case and the applicable law as set forth by this Court and the United States Supreme Court. Obviously Judge Solomon's opinion, which he read in court, was prepared with a great deal of care and in his application of the law to the facts he reached the only reasonable answer. His action in granting defendant a judgment n.o.v., was not precipitous, ill-advised, or any of the names by which appellant calls it. We believe that the ensuing sections of our brief will show that Judge Solomon considered all the evidence and reasonable inferences drawn therefrom in a light most favorable to appellant and, in so doing, came to the correct conclusion that reasonable minds could not differ and that there was no basis for the jury verdict in favor of appellant.

That there is no basis for appellant's vicious attack on Judge Solomon is evidenced by the extremely conscientious manner in which this case was handled by the Judge. Commencing almost one month before the actual trial date, Judge Solomon made himself available at all times to counsel and worked with counsel at numerous pretrial conferences and meetings which extended throughout the period. During the trial he continually requested and received from counsel additional information and numerous memoranda of law dealing with various aspects of the case and particularly the questions of

patentable invention and infringement (see for example R. 382).*

We believe that Judge Solomon, instead of ignoring the evidence in the case, was fully aware of it and of the method in which it was being presented to the jury. On every occasion he did everything he could to help counsel to present their cases. As the transcript of record shows, throughout the trial he permitted the parties great latitude and was lenient as to admissibility of evidence, questioning of witnesses, etc. The record establishes that Judge Solomon should be affirmed, not condemned, for his excellent display of judicial ability and action.

Appellant's statements of the pleadings, facts and case contain considerable controversial matter and are almost completely barren of references to the printed transcript of record. We shall therefore make a counter statement.

COUNTER STATEMENT OF THE CASE

HISTORY OF THE LITIGATION.

Appellant appeals from a final judgment by the District Court for the District of Oregon (Honorable Gus J. Solomon, presiding). The judgment set aside the special interrogatories and general verdict of the jury in favor of plaintiff and against defendant Admiral Corporation in the sum of \$2,093,180, and against defendant Amana

*R. indicates page of printed transcript of record.

Pl. Ex.—plaintiff's exhibit.

Def. Ex.—defendants' exhibit.

Aplt's Br.—appellant's brief.

Aplt's Exp.—appellant's expert.

Emphasis added throughout brief unless otherwise noted.

Refrigeration, Inc. in the sum of \$45,575; and granted judgment in favor of defendants (R. 70). In the judgment the Trial Court also ordered, on its own motion, that in the event its judgment for defendants should be reversed on appeal, then the jury's verdict and special interrogatories shall be set aside and a new trial granted on the following grounds: (1) the verdict is contrary to the clear weight of the evidence; (2) the damages awarded plaintiff are excessive (R. 71).^{*} The Trial Court filed an opinion (R. 72) holding the patent sued upon invalid and not infringed, and that there was no rational basis for the damages awarded by the jury.

The patent in suit, which expired October 6, 1953, is Bronaugh & Potter reissue patent No. 23,058, entitled "Refrigerator." (Pl. Ex. 2. Copies of all patents referred to herein are contained in the folder supplied to the Court herewith.)

The original patent was No. 2,056,165, issued October 6, 1936, on an application filed February 16, 1931 (Pl. Ex. 1; see folder of patents). Six claims (the only claims in issue) of the original patent were held invalid by the Court of Appeals for the Seventh Circuit on February 7, 1947, in *Refrigeration Patents Corp. v. Stewart-Warner Corp.*, 159 F. 2d 972, cert. denied 331 U.S. 834, 91 L. Ed. 1847 (1947), on the ground that these claims were vague, indefinite and functional and, therefore, violated R.S. § 4888, 35 USC § 33 (1946).

In another case involving original patent No. 2,056,165, claim 11 (the only claim in issue) was held invalid

^{*}Although the Trial Court ordered the new trial pursuant to Rule 59(d) FRCP defendants' motion notwithstanding the verdict under item 3 (R. 69) laid the basis for a new trial in stating that the jury verdict was grossly excessive and contrary to the evidence.

on the ground that the subject-matter was first claimed more than two years after public use. *General Electric Co. v. Refrigeration Patents Corp.*, 71 USPQ 236 (W.D. N.Y. 1946).

On June 18, 1948, the patentees filed an application in the Patent Office for reissue of the patent and on December 14, 1948, the reissue patent in suit was granted (Def. Ex. 102).

This suit was filed April 23, 1951 (R. 6) by plaintiff-appellant which was formed in Oregon shortly before filing of this suit (Def. Ex. 120-B first full paragraph p. 2). The patent in suit was assigned to appellant one month before the filing of the suit (Pl. Ex. 17). Appellant has no place of business but only an agent for service in Oregon (Agreed Statement of Fact item 1, R. 31).

The suit was originally filed against Lou Johnson Company, Inc. and Meier & Frank Company, Inc., a distributor and retail dealer respectively of Admiral and Amana refrigerators (R. 3). Subsequently, the manufacturers, Admiral Corporation and Amana Refrigeration, Inc., intervened and assumed the defense (R. 31).

On March 21, 1953, on defendants' motion for summary judgment and on issues segregated under Rule 42(b) of the Federal Rules of Civil Procedure, the District Court entered a final judgment holding all four claims of the Bronaugh & Potter reissue patent invalid on the ground that the reissue was unauthorized since the patentees had made no showing of inadvertence, accident or mistake.

On appeal, this Court on November 24, 1954, reversed and remanded the case for trial (217 F. 2d 39).

The trial resulted in the judgment from which the present appeal is taken.*

SUBJECT-MATTER INVOLVED.

The Bronaugh & Potter reissue patent No. 23,058 in suit (Pl. Ex. 2)[†] relates to a two-compartment, two-temperature refrigerator, with one compartment for frozen foods and ice and the other for foods to be maintained at temperatures above freezing.

Such freezing and cooling compartments in one box were old long before Bronaugh & Potter and it is admitted in the Agreed Statement of Facts of the pretrial order (R. 40) and appellant's brief (p. 15) that all the elements in the patented combination are old.

In 1922, long before Bronaugh & Potter entered the field, the basic elements and organization were disclosed in the Anderson patent No. 1,439,051 (Def. Ex. 105; see folder of patents). Figure 1 of the Anderson patent is reproduced at the back of this brief (Appendix Plate I). Before the patent in suit is discussed, the combination of old, well-known elements, as shown in Anderson, will be outlined.

First, there is a box or cabinet 9. The inside walls and top and bottom of this box and the interior parti-

*Appellant's statement (brief p. 1) that the remaining issues to be tried after disposal of the motion for summary judgment were presumably only fact issues is incorrect. Several issues of law were raised by the contentions of the parties in the pretrial order. The usual practice of separately listing issues of law and fact in the pretrial order was abandoned because of the parties' inability to agree thereon.

[†]Variously referred to hereinafter as "Bronaugh & Potter," "the Potter patent," "Potter," "patent in suit."

tions are provided with insulating material 14. The interior of the box is divided to form three compartments 6, 7 and 8, which are accessible through doors. One compartment 7 is a freezing compartment, another compartment 6 is a food refrigerating or cooling compartment. In the bottom of the box is a space or compartment 8 for the usual machinery, to be described (Aplt's Exp., R. 844-6).

The two compartments 6 and 7 are cooled by the evaporation of a volatile liquid refrigerant in a direct expansion system which passes through a continuous pipe which is made up of coils 34, 40 which extend through each of the compartments 6 and 7. The evaporation of the liquid refrigerant in the coils 34, 40 absorbs heat and thus reduces the temperature of the compartments and their contents (Aplt's Exp., R. 844-7). The larger the heat absorbing surface of the coils is, the more rapid the heat transfer will be (Quinn, R. 684; Bronaugh, R. 152). The evaporation of the liquid refrigerant performs the same function as the melting of the cake of ice in the old icebox and the old icebox had a moist cold condition therein (Bronaugh, R. 97; 406).

The liquid refrigerant is circulated in the coils 34, 40 by means of a pump in the machinery compartment 8 and in absorbing heat from the compartments is changed to a vapor. The continuous pipe which extends through both of the compartments 6 and 7 is connected to a single liquefying unit including a compressor (Fig. 4) in the machinery compartment 8 which changes the vapor back into liquid. The heat which the vapor has absorbed is transmitted to the air outside the box or cabinet. The refrigerant liquid leaves the compressor or

condenser and is returned by the pump to the food compartments. Thus, there is continuous circulation of the refrigerant liquid and vapor (Aplt's Exp., R. 844-9).

The evaporation of the liquid refrigerant is accomplished by lowering the pressure on the liquid. The pressure is lowered in Anderson by passing the liquid through what is called an expansion or reduction valve 33, which is basically a small opening, *adjustable in size*, at or near the entrance to a section of pipe of larger diameter. The pressure in the larger section of the pipe is less than that ahead of the small opening, and evaporation commences as the liquid enters the larger section (Aplt's Exp., R. 847).

A thermostat in the refrigerator cooling compartment 6 controls the "on" and "off" cycle of an electric motor which drives the pump and compressor (Aplt's Exp., R. 850).

The Anderson patent discloses (Aplt's Exp., R. 844-50. See also folder of patents):

1. A cabinet 9.
2. A cooling compartment 6 in the upper section of the cabinet.
3. A freezing compartment 7 in the lower right section of the cabinet.
4. Thermal insulation 14 surrounding each compartment.
5. A section of pipe (coil) 40 located within the cooling compartment 6.
6. Another section of the same pipe (coil) 34 located within the freezing compartment 7.

7. Volatile liquid refrigerant in the pipe (p. 1, col. 2, lines 77-85).
8. An expansion valve 33 in the pipe 34.
9. A single unit (shown generally at 20) for liquefying the vapor formed in the pipe.
10. A thermostat in the cooling compartment for automatically controlling the operation of an electric motor 25 (p. 1, col. 2, lines 91-93).

The refrigerant in Anderson's direct expansion system first runs through coil 34 in freezing compartment 7 and then through coil 40 in cooling compartment 6. The expansion valve 33, which controls the rate of evaporation of the liquid refrigerant and accordingly the temperature, is located in the pipe at the entrance to the freezing compartment 7. The expansion valve is adjustable and depending on its setting one can control the degree of frosting on the coils of the cooling compartment (Aplt's Exp., R. 868, 870).

Long before Bronaugh & Potter entered the field, it was recognized that if the temperature of the coil in a cooling compartment is below freezing, there is a substantial difference in the temperature of the air immediately adjacent the coil and the air at a distance. This causes circulation of air. When the air passes over the below-freezing coil, particularly if the heat transfer surface of the coil is relatively small, some moisture is taken from the air and foods in the compartment and condenses on the coil to form frost. This results to some degree in a dehydration of the food, and also reduces the heat transfer through the walls of the coil (Aplt's Br. 3, 4).

To minimize these effects, it had been common practice to produce a moist cold atmosphere and prevent dehydration in mechanical refrigerators by providing a coil with fins for the absorption and transfer of heat. Thus the coil was more effective in absorbing heat and could be more nearly maintained at an above freezing temperature, to reduce frosting of the coil and dehydration of the foods.

Prior to Bronaugh & Potter, "freezing coils" and "non-frosting"* coils for refrigerators were well-known and available as stock items (Aplt's Br. 46, 48).

The Larkin patent No. 1,776,235, issued September 16, 1930, on an application filed June 28, 1928 (Def. Ex. 106. Also see folder of patents) shows and describes such a "non-frosting" coil for a *household* refrigerator (Aplt's Exp., R. 861). Larkin fully describes that the fins prevent frosting thereon and dehydration of foods (Aplt's Exp., R. 859, 860; 170).

When Bronaugh & Potter built their first two-compartment, two-temperature refrigerator, they purchased a Larkin finned coil and installed it in the cooling compartment. Prior to that time they were engaged in building refrigerators for commercial use, i.e., stores, butcher shops, etc., in which they used Larkin finned coils.

Bronaugh testified (R. 165):

"* * * We were using Larkin coils in commercial work and the first of the finned coils that I adapted to our experimental work were remodeled out of larger Larkin coils. We later, as I recall, purchased a coil of a size suitable for our purpose."

*These two words are quoted because, contrary to what appellant now states, we shall show that appellant's witnesses testified that there is no such thing inherently as a "freezing" or "non-frosting" coil. It all depends on how the coils are *operated*.

Bronaugh further testified (R. 166):

“Q. And were those coils that you purchased on the open market?

A. They were purchased from the Larkin factory which, as I recall, was located down in Georgia.

Q. But they were standard coils?

A. That's right.

Q. And purchased on the open market?

A. That's right.”

BRONAUGH & POTTER REISSUE

PATENT NO. 23,058 IN SUIT.

The patent in suit, is for a two-compartment, two-temperature refrigerator with one compartment 12, 13 for freezing foods and the other compartment 14 for cooling or refrigerating foods to temperatures above freezing. The first two paragraphs of the patent read as follows:

“This invention relates generally to the art of refrigeration, and particularly to a new form of refrigerator.

“The main object of this invention is the design of a refrigerator which will make it possible at one and the same time and over long or short periods of time to perform several highly desirable tasks, namely to form ice or freeze desserts quickly, to provide cold storage for frozen meat and food stuffs, and to provide storage for food at temperatures above freezing.”

At the back of this brief (Appendix Plate II), Fig. 1 of the Bronaugh & Potter patent is reproduced. The elements of the structure were pointed out by appellant's expert as follows (R. 757-64):

1. A cabinet 10.
2. A cooling compartment 14 in the upper section of the cabinet.
3. A freezing compartment 12 and 13 in the center of the cabinet.
4. Thermal insulation 33, 39, 41, surrounding each compartment.
5. A section of pipe (coil) 25 located within the cooling compartment 14.
6. Another section of the same pipe (coil) 22 located within the freezing compartment 12 and 13.
7. Volatile liquid refrigerant in the pipe (p. 2, col. 1, lines 7-16).
8. An expansion valve 23 in pipe 22.
9. A single unit 15 for liquefying the vapor formed in the pipe.
10. A thermostat 31 in the cooling compartment 14 for automatically controlling the operation of a motor 16.

The terms "coil," "pipe," "pipe coil," "expander," "evaporator," and "boiler" are interchangeably used in the patent in suit, prior art references, and testimony of witnesses. They all mean the same thing and refer to the elements through which volatile refrigerant passes for freezing and cooling purposes (Aplt's Exp., R. 887).

The refrigerator of the patent in suit operates as follows: Volatile liquid refrigerant from a sump or receiver 17 passes through line 24 to coil 22 in the freezing compartment. An expansion valve 23, located in coil 22, is adjusted to control the flow of liquid refrigerant thereby controlling the temperature in the compartment. Vaporization of the liquid refrigerant passing through coil 22 is controlled by the setting of valve 23. The vaporized or partially vaporized refrigerant continues through the cooling coil 25 in the cooling or refrigerating compart-

ment 14. The refrigerant, after absorbing heat from the freezing and cooling compartments and accordingly being in the form of vapor, is then returned through line 26 to a single liquefying unit comprising compressor 15, condenser 18 and receiver 17. The operation of the liquefying unit is controlled by thermostat 31 in the refrigerating or cooling compartment 14.

It is clear from a reading of the original Bronaugh & Potter patent and the original claims submitted to the Patent Office that the inventors believed, and represented to the Patent Office, that their invention was a broad one covering a refrigerator having a compartment for maintaining below-freezing temperatures and another compartment for maintaining temperatures slightly above freezing. Typical of the claims presented to the Patent Office is original Claim 1 which reads as follows:

“A refrigerator having a freezing compartment, and a cooling compartment thermally separated from said freezing compartment.” (Def. Ex. 101, p. 8).

Such claims were consistently rejected by the Patent Office and many years later after many patent solicitors labored on the applications, the inventors ended up with four claims, the broadest of which is Claim 2 which has been parsed to facilitate reading:

- “2. A household refrigerator which in normal operation provides
- above-freezing moist cold air for preserving in a refrigerated condition foods susceptible to moisture loss by evaporation and
 - below-freezing dry cold air and
 - a dry cold surface for preserving foods in a frozen condition,

said refrigerator comprising

- (1) a cabinet having
- (2) a cooling compartment and
- (3) a freezing compartment,
- (4) thermal insulation

around said compartments thermally insulating said compartments from each other and from the outside atmosphere,

- (5) a cooling refrigerant expander having heat-conducting surfaces within said cooling compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature above 32°F. while withdrawing heat from said compartment,

whereby air in said cooling compartment is cooled thereby to a temperature above 32°F. and is maintained at a humidity whose relative value is at least 100% at 32°F. ,

- (6) a freezing refrigerant expander having heat-conducting surfaces within said freezing compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature well below 32°F. while withdrawing heat from said compartment

whereby air in said freezing compartment is cooled thereby to a temperature well below 32°F. ,

- (7) volatile refrigerant in said expanders,
- (8) a single liquefying unit

associated with said expanders and constructed and arranged to condense refrigerant expanded by heat extracted from both said compartments,

- (9) the volatile refrigerant circulating through said expanders being the sole heat-extracting medium, and
- (10) a thermostat responsive to the temperature in one of said compartments controlling the operation of said liquefying unit."

Appellant now states (Aplt's Br. 22) that the Bronaugh & Potter invention is for a unitary machine for operating two coils of different proportions so that one is frosting and the other non-frosting. As we understand this statement it means that the inventive advance made by the patent in suit is a *change in proportion* of the cooling coil with respect to the freezing coil. The ensuing argument will show how the Anderson and Davenport patents anticipate this definition of the invention. However, at this point we merely call attention to the fact that appellant has shifted its position in that its expert's appraisal of the alleged invention was different. Mr. Parker very succinctly and directly put his finger on what he considered the invention to be when in comparing the Bronaugh & Potter patent with the Anderson patent, he said that the change Bronaugh & Potter made over Anderson was to provide fins on Anderson's cooling coil. He also admitted that such fin coils for the same purpose were old as shown by the Larkin patent (R. 852-3).

"Q. What I am trying to get at is this: Potter shows one type of coil 25. You say it is a finned coil, 25?

A. Right.

Q. And Anderson shows a coil 40 which does not have fins; that is correct, is it?

A. That is correct.

Q. It is by virtue of the fact that Potter provided fins on his coils that he prevented dehydra-

tion of food in the food compartment; that is correct, isn't it?

A. That is correct.

Q. And so the improvement for the preventing of the dehydration was, in Potter was to provide the coil 25 with fins?

A. That is the change he made.

Q. All right. Then if the cooling coil 40 in Anderson were provided with fins, he would accomplish the same result, would he not?

A. He could have.

Q. Yes, I say he would have if he put fins on it?

A. If he did, yes.

Q. That is right. Now, you have stated that finned coils were old at that time, at the time Potter came into the field?

A. They were.

Q. I know you might have in mind the Larkin patent. You may have something else in mind that you knew of in actual operation because of your extensive knowledge in the refrigeration field.

A. Well, I am familiar with the Larkin patent, but I have also seen other finned coils, of course.

Q. Long before, or at least before?

A. Before, shall we say.

Q. Yes, before Potter?

A. That is right.

Q. For the same purpose of absorbing heat?

A. Finned coils are used to absorb heat; correct."

THE REFRIGERATORS CHARGED TO INFRINGE.

Only the Admiral structure will be discussed. For purposes of this case, the Amana structure is generally similar to that of Admiral, and it was stipulated that if Admiral does not infringe, Amana does not infringe; if Admiral infringes, Amana infringes (R. 823).

At the back of this brief are reproduced schematic drawings of the Admiral accused refrigerator. These

drawings are reproduced from Def. Ex. 114-A and Pl. Ex. 8A. Letter references have been added for the sake of clarity (Appendix Plates IV, V).

The Admiral refrigerator has a cabinet with a freezing compartment A and a cooling or refrigerating compartment B, the latter of which as a unit, is removable from the cabinet independently of the freezing compartment. A primary circuit C surrounds the freezing compartment and cools it. A secondary circuit D surrounds the cooling compartment and cools it. These two circuits are separate and distinct and each has its own separate and distinct refrigerant circulating therein. Each circuit has its own separate and distinct unit for liquefying the vapor formed therein (Aplt's Exp., R. 901-2).

In the machinery compartment in the bottom of the Admiral cabinet there is a conventional condenser E and pump F which liquefy and circulate the refrigerant in the primary circuit C only. The pipe C, forming the primary circuit, runs from the condenser E up around the outside of the liner of the freezing compartment A and back to the condenser E.

The pipe D forms the secondary circuit and runs around the outside of the liner of the cooling compartment B. This is known as the "cold wall" type of refrigerator wherein the cooling pipes (without heat absorbing fins) are wrapped around and are in engagement with the outside of the cooling compartment shell (Aplt's Exp., R. 903). The pipe D forms a closed secondary circuit, with no intakes or outlets. The supply of refrigerant sealed in the pipe D circulates therein during operation of the circuit.

The flow of refrigerant in the secondary circuit D is influenced by means of a secondary transfer plate G to which the upper portion of said secondary pipe D is thermally attached. It is when this secondary transfer plate is chilled that it acts as a condenser or liquefying unit to convert the vapor in the secondary circuit back into a liquid. This secondary transfer plate G is secured to a primary transfer plate H to which is thermally connected a portion of the primary circuit freezing pipe C. These transfer plates G and H act as means for transferring heat between the two circuits (Aplt's Exp., R. 898-900).

When liquid refrigerant is passed through the primary pipe C, it chills plates H and G and the adjacent section of secondary pipe D (Aplt's Exp., R. 898-900).

Since heat flows from a warmer to a colder object, the vapor rising into the chilled section of the secondary pipe D is condensed to a liquid by the lowering of the temperature (Aplt's Exp., R. 900). The liquid refrigerant then runs downwardly in the vertical central stem to the bottom of the circuit and flows laterally in opposite directions. The liquid in the secondary circuit absorbs heat from the cooling compartment and accordingly evaporates or boils. The vapor rises in the lateral portions of the secondary circuit D until it reaches the chilled section of the pipe adjacent the transfer plate G, when it is recondensed or liquefies (Aplt's Exp., R. 899-900).

SPECIFICATION OF ISSUES

On this appeal from a judgment n.o.v., the question before this Court is "whether 'the evidence is such that without weighing the credibility of the witnesses there

can be but one reasonable conclusion as to the verdict' and that such conclusion was the one arrived at by the trial Judge." *Himes v. Chadwick*, 9 Cir., 199 F. 2d 100, 102, (1952).

The Trial Court here reached the one reasonable conclusion as to the verdict because the testimony of appellant's witnesses and the documentary evidence compels the conclusion that the patent in suit is invalid and not infringed, for the reasons set out in the following summary of argument. The jury here "departed from the relevant legal criteria by which either a jury or a judge must be guided in their or his fact-finding function. . . ." *Berkeley Pump Co. v. Jacuzzi Bros.*, 9 Cir., 214 F. 2d 785, 792 (1954).

SUMMARY OF ARGUMENT

The Trial Court correctly exercised its right and duty in setting aside a jury verdict for plaintiff-appellant which was completely at variance with the standards of invention laid down by the courts.

The Bronaugh & Potter patent is invalid for a number of reasons:

(a) The Anderson patent, which shows a refrigerator like the patented one, has all the elements called for in the Bronaugh & Potter claims and operates in the same way.

(b) The Davenport patent (1,726,344) discloses a refrigerator like the one appellant now defines as the Bronaugh & Potter invention in an attempt to make out infringement.

(c) There is no invention over Anderson in view of the Larkin patent. Larkin teaches the use of a fin coil to produce moist cold which appellant's expert said was the Bronaugh & Potter invention.

(d) The Bronaugh & Potter claims call for no more than an aggregation of old elements which perform the same together as they did separately.

(e) There is no written description of a fin coil in Bronaugh & Potter, and therefore there is no compliance with the statutory requirement for disclosure of the invention.

(f) The alleged invention does not satisfy the criteria and standards of patentable invention established by this Court.

(g) The claims of Bronaugh & Potter are invalid because subject matter claimed therein was first asserted in the patent application more than two years after sale of refrigerators having structure corresponding to the claimed subject matter.

The claims of the Bronaugh & Potter patent are not infringed:

(a) The accused refrigerators are of a different type known as "cold wall" (Davenport 1,726,344) as distinguished from the patent which, according to appellant's own witnesses, is of the fin coil type. These two types of refrigerators are different in structure, function and result.

(b) The claims of the patent call for a single liquefying unit with a single refrigerant. The accused refrigerators have two liquefying units with separate re-

frigerants, and there is no identity of structure, function and result between the patent and accused refrigerators.

(c) The patent is not entitled to any liberal construction because if valid it is for a very narrow improvement.

(d) If the Bronaugh & Potter invention is for a fin coil as urged in the Trial Court, there can be no infringement since the accused refrigerators have no fin coils.

The history of the Bronaugh & Potter patent establishes commercial failure so that even if there were some doubt as to validity of the patent, it is not helped by its past.

The Trial Court's order for a new trial is not reviewable since there was no rational basis for the jury award, and there was no abuse of discretion by the Trial Judge.

Appellant's demands for treble damages, attorneys' fees and costs are completely unfounded. The Trial Judge did not abuse his discretion in these matters.

The judgment of the Trial Court should be affirmed.

ARGUMENT

I. THE TRIAL COURT CORRECTLY EXERCISED ITS RIGHT AND DUTY IN SETTING ASIDE THE JURY'S VERDICT AND ENTERING JUDGMENT FOR DEFENDANTS-APPELLEES.

Under the decisions of this Court, the Trial Court had "the right and duty . . . to direct a verdict in a patent case, where the circumstances indicate the jury

has departed from the relevant legal criteria by which either a jury or a judge must be guided in their or his fact-finding function. . . ." *Berkeley Pump Co. v. Jacuzzi Bros.*, 9 Cir., 214 F. 2d 785, 792 (1954); *Kwikset Locks. v. Hillgren*, 9 Cir., 210 F. 2d 483, 486 (1954); *Himes v. Chadwick*, 9 Cir., 199 F. 2d 100 (1952).

In accord: *Packwood v. Briggs & Stratton Corp.*, 3 Cir., 195 F. 2d 971 (1952), relied upon by this Court in the *Himes* case; *Ryan Distributing Corp. v. Caley*, 3 Cir., 147 F. 2d 138, 140 (1945), relied upon by this Court in the *Jacuzzi* case; *Nachtman v. Jones & Laughlin Steel Corp.*, 3 Cir., F. 2d, 110 USPQ 167 (June 27, 1956).

The language of the Court in the *Packwood* case is apt (195 F. 2d 973-4):

"A jury in a patent case is not free to treat invention as a concept broad enough to include whatever discovery or novelty may impress the jurors favorably. Over the years the courts of the United States, and particularly the Supreme Court, have found meaning implicit in the scheme and purpose of the patent laws which aids in the construction of their general language. In this process, rules and standards have been developed for use as guides to the systematic and orderly definition and application of such a conception as invention in accordance with what the courts understand to be the true meaning of the Constitution and the patent laws. Once such standards and rules are authoritatively announced any finding of 'invention' whether by a court or a jury must be consistent with them.

"This is no peculiarity of patent law. Jury findings of negligence or proximate cause must comport with common law rules devised to give reasonable and systematic meaning to those generalities. * * * And so it is throughout the body of the common

law. This authority and responsibility to keep jury findings within reasoned rules and standards is an essential function of United States judges today as it long has been of common law judges. * * * It stands as a great safeguard against gross mistake or caprice in fact finding.

* * *

"In *Ryan Distributing Corp. v. Caley*, 3 Cir., 1945, 147 F.2d 138, 142, 64 USPQ 257, 260-261, this court pointed out that entry of judgment n.o.v. is the appropriate corrective action when a jury has found a patent valid although the court's application of defining principles reveals 'a clear-cut case of lack of invention'. Also indicating the propriety of thus over-ruling the trier of fact is the already cited *Atlantic and Pacific* case where the Supreme Court reversed a finding of invention duly made and approved by both a district court and a court of appeals. In the instant case the district court should have entered judgment n.o.v. upon the basis of a ruling that, consistent with controlling standards, the device in suit plainly could not embody invention."

In the recently decided *Nachtman* case (*supra*) the Court of Appeals for the Third Circuit discusses the controlling law and expressly reaffirms the principles enunciated in the *Packwood* case. The fact situation in the *Nachtman* case approximates ours since in that case plaintiff obtained from the jury a favorable general verdict, as well as answers to special interrogatories concerning each of the four patents in issue, one of which was a reissue. The Court of Appeals sustained a judgment n.o.v. which set aside a jury verdict for plaintiff at a royalty rate of 2½% on defendant's sales, the verdict amounting to almost one and a half million dollars.

In the case at bar, the Trial Court correctly exercised its right and *duty* in entering judgment n.o.v., as will be shown in the remaining sections of this brief.

II. THE BRONAUGH & POTTER CLAIMS ARE INVALID.

(A). The Bronaugh & Potter Claims Are Invalid Because They Are Anticipated by the Anderson Patent.

The disclosure of the Anderson patent (Def. Ex. 105) has been discussed above in the Statement of Facts.

There follows a comparison of the elements of Bronaugh & Potter and Anderson: (See testimony of appellant's expert, R. 844-50, and Appendix Plates I, II.)

<i>Element</i>	<i>Bronaugh & Potter</i>	<i>Anderson</i>
1. A cabinet	10	9
2. cooling compartment	14	6
3. freezing compartment	12, 13	7
4. thermal insulation	33, 34, 41	14
5. section of pipe within the cooling compartment	25	40
6. section of the same pipe within the freezing compartment	22	34
7. volatile liquid refrigerant in the pipe	(p. 2, col. 3, lines 7-16)	(p. 1, col. 2, lines 77-81)
8. expansion valve	23	33
9. a single unit for liquefying the vapor formed in the pipe	15	20
10. thermostat in the cooling compartment	31	(p. 1, col. 2, lines 91-93)

The foregoing comparison of elements we submit speaks more convincingly than any argument either appellant or appellees can make that Anderson is a com-

plete anticipation of the Bronaugh & Potter patent. Undeniably, *Anderson has the same organization of elements as Bronaugh & Potter operating in the same manner to produce the same result.* This, of course, was infringement and explains why Potter bought the Anderson patent (Potter, R. 337).*

See appendix plate VI for comparison of claim 2 of Bronaugh & Potter with Anderson (also Davenport patent 1,726,344 hereinafter discussed).

It is significant that out of appellant's seventy-one page brief only one paragraph (first paragraph p. 20) directly discusses appellee's admittedly best reference, Anderson. (See later argument with respect to equal pertinency of Davenport 1,726,344.) Appellant tacitly admits that Anderson is the same as Bronaugh & Potter in all respects except that the coils in both of Anderson's compartments are "*necessarily* at a temperature below 32°F." This means that Anderson's freezing coil (34) and cooling coil (40) always frost. The record references cited by appellant do not support appellant's statement (Aplt's Br. 20).

*The owners of the Bronaugh & Potter application enjoyed the monopoly afforded by the Anderson patent until its expiration in 1939. Appellant's present assertion of the Bronaugh & Potter patent to cover the same refrigerator as covered by Anderson is an attempt to extend the monopoly of Anderson long after it has expired. For instance, Claim 2 of Anderson reads as follows:

"In a refrigerator, the combination of an enclosing structure, insulated means dividing the structure into a freezing compartment, a refrigerating compartment, and a compartment for operating mechanism, operating mechanism in the latter compartment, a freezing coil connected to the operating mechanism, in the freezing compartment, and a refrigerating coil in the refrigerating compartment connected to the freezing coil and to the operating mechanism."

Anderson is "nonfrosting" in the same sense as Potter. Both frost to a *degree*, depending on the adjustment of the adjustable expansion valve (33 in Anderson; 23 in Potter).

The Potter patent says that some of the refrigerant reaches the cooling coil 25 in *liquid* form, and vaporizes therein (col. 5, lines 10-12). The patent also says (col. 6, lines 3-5):

"There may, of course, occur a slight amount of frosting where the cooling coil 25 enters the compartment 14."

Appellant's expert testified (R. 866-70):

"Q. (By Mr. Byron): Mr. Parker, is there such a thing as a nonfrosting coil and a frosting coil?"

A. You mean in the sense that the coil is inherently frosting or nonfrosting?

Q. Well, in any sense you desire to answer that.

A. No. I think you would have to use those terms in relation to the situation of the coil in a particular assemblage of parts.

Q. I think that's right. You can cause a coil to frost or you can treat the coil so it will not frost, is that correct?

A. That's correct.

Q. And as long as we are on that subject, it's a little bit out of my line here for the moment, but let's take the function of the expansion valve 23 in Potter and the expansion valve 33 in Anderson, or either one. The function of that expansion valve is to control the flow of liquid refrigerant from the high pressure side to the low pressure side, is that correct?

A. That's true.

* * * * *

Q. All I have in mind is this: In Anderson if you increase the opening of the expansion valve 33 to the extent that you get liquid refrigerant passing

through the liquid coil, and then passing through a substantial part of the coil 40, you would get an increased frosting? A. I would think so, yes.

Q. Same as you would in Potter, correct?

A. Yes.

* * * * *

Q. Well, if the refrigerant were all transformed into a vapor in the refrigerating coil 22, and you had nothing but the vapor passing through the cooling coil 25, would you get any cooling effect in the cooling chamber?

A. I frankly don't know because I don't know what the temperature of the vapor would be.

Q. Under those circumstances would you get any frosting of the coil in the Potter arrangement?

A. No—of the upper coil?

Q. Yes.

A. No, you certainly would not.

Q. And would you get any in the cooling coil 40 of the Anderson patent?

A. If no refrigerant entered the Anderson upper coil to evaporate, I do not see how you could get any frosting on it.

Q. No liquid refrigerant?

A. I mean no liquid refrigerant.

Q. That's right. So they would be the same in that respect?

A. Yes.

Q. You nodded your head. Did you answer?

The Court: Yes, he has answered."

Appellant's expert further testified that in Potter refrigerators which he had seen operate, there was frosting not only on the coil, but on two of the *fins* (R. 1366):

"A. In the two Potter boxes which I had opportunity to see in operation there was slight frosting at the point of entry of the finned—of the tube of the finned coil and there was some frosting on one and I believe two of the fins, which would be at the

left hand of the Potter box, the box in exhibit. There was a slight frost—a little frost, yes.”

As to frosting in Anderson, appellant’s expert testified (R. 825-6):

“Q. Is there a frosting coil in the cooling compartment of the Anderson patent 1,439,051?

A. Yes. In my opinion it would frost some.

The Court: I didn’t hear what you said.

The Witness: It will frost to *some degree* or to some distance in the upper box. The coil or the pipe which, I believe, is numbered 41, goes up into the upper box. In my opinion, it would frost.”

Note that appellant’s expert said that only the vertical pipe 41 of Anderson will frost “some”, not the horizontal coil sections 40 (Fig. 1 Anderson, Appendix Plate I).

Appellant’s witness Bade testified as to the frosting of the cooling coil in the Barry box made by Potter (R. 212-13):

“Q. Well, then, exactly where in this Barry box did you set that frost line?

A. Well, we would come out of the bottom and into the top coil.

Q. Would we pass the top coil?*

A. Oh, no; you would just use the top coil. There would not be any use to go past the top coil because that is where you get your efficiency out of the job was because when the machine would cycle it would carry just a perfect humidity. In a certain amount of T.D. temperature degrees, the thermostat would kick over, turn it on again, and that coil would be completely defrosted except for maybe if it was real cold we would set that around 32 degrees,

*Fig. 1 of the Bronough & Potter patent shows four horizontal coil sections with the refrigerant entering the lowermost and moving upwardly (Appendix Plate II).

which is frosting, and would have just a bead of ice which is something it would take a very good box you buy today that you would have; I don't believe you can buy one. I got one I wish somebody else had.

Q. In other words, the way that you adjust the degree of frost is by setting this valve?

A. The amount of tubing and the amount of length were all figured out later. Like I say, we cut-and-tried a lot of things, a lot of this stuff, and after we tried those things they seen that they had a basis of engineering.

Q. Yes, but you would adjust it with the valve in the expansion coil?

A. In the bottom part of the box.

Q. You might vary the frost line without—almost no limit?

A. Well, if you had horsepower enough, why, you could stretch it all over the room if you wanted to because it would still be an evaporative coil.”

The specification of the Anderson patent also contradicts appellant's incorrect statement concerning this patent. Page 2, lines 35-41 read as follows:

“ A removable guard of wire netting extends in front of the back member of the coil 40, as at 46, and inside of the side-members of said coil, as at 45, to prevent any food-vessel from being placed where dripping from the coil would fall into such vessel.”

Since Anderson mentions “dripping from the coil”, obviously it was not contemplated that this coil 40 would “necessarily” be at a temperature below 32°F. but that it would normally be above 32°F. because that is the only condition under which dripping could take place. Wire netting is provided in front of coil 40 to prevent food from being dripped upon.

Nor can it be argued by appellant that Anderson is distinguishable on the grounds that he does not have extended surfaces on his coil 40 as Bronaugh & Potter are supposed to have. Figs. 1 and 2 of Anderson show how cooling coil 40 is extended longitudinally and of differing proportions from freezing coil 34 so as to have greater heat conducting surfaces than the freezing coil. The surfaces of the coil are extended vertically by reason of being mounted against the metal inner lining 12 of the cooling compartment and having the wire netting also adjacent the coil. Obviously, the metal liner and wire netting act as extended surfaces for heat absorption for the cooling coil.

Therefore both of Anderson's coils are not "necessarily at a temperature below 32°F." and that to the extent both are, the same applies to Bronaugh & Potter for the identical reasons.

Assuming arguendo that what appellant states about Anderson is correct, the teaching of Bronaugh & Potter could at most amount to instructions to close Anderson's adjustable valve 33 having a handle on it (clearly shown in Figs. 1 and 2 of Anderson's drawings) until cooling coil 40 does not frost. Even if instructions on how to set an adjustable valve could be patentable invention, the fact is that there isn't any such teaching in Bronaugh & Potter. Nothing is said concerning the construction and arrangement of the expansion valve 23 in Bronaugh & Potter and nothing significant could have been said about the valve since it was a well-known device being used precisely the way it was intended.*

*"Adjustability only was involved and adjustability is not invention." (Citing cases.) *Universal Products Co., Inc. v. Montgomery Ward & Co.*, 6 Cir., 146 F. 2d 957, 959 (1945).

Since Anderson is such a complete anticipation of Bronaugh & Potter, it could well be asked how they managed to get by the Patent Office. In the first place, an examination of the file wrapper of the original patent (Def. Ex. 101) shows that the application traveled a rocky road and finally the "antlike persistency" (*Gentzel et al v. Manning*, 230 F. 2d 341, 345) of Bronaugh & Potter's solicitors succeeded in obtaining a patent where none should have issued.

In attempting to distinguish from Anderson in the Patent Office, Bronaugh & Potter made the following representations to the Examiner (Def. Ex. 101, pp. 82, 83):

"However, nothing is said in the Anderson patent regarding the surface temperature of the chilling unit in the warmer chamber. It has been common practice prior to applicants' invention to cool a chamber to a low temperature well above the freezing point with a chilling element whose surface temperature is well below the freezing point, and the natural inference is that Anderson's upper coil has a surface temperature below the freezing point. Certainly there is nothing in his specification to teach the contrary. Furthermore, Anderson's chilling units are connected in series and no means are provided for maintaining a different pressure in the two chilling units, or for forming the upper chilling unit with a broad heat absorbing surface, such as would prevent the formation of frost thereon. It will be obvious to any one skilled in the art, that the coils in Anderson's warmer chamber must have a surface temperature below the freezing point, either throughout the length of the coils, or through a substantial extent thereof, for if Anderson's apparatus were so arranged that all of the refrigerant were evaporated in the lower chilling element, there would be little cooling effect left in the completely vaporized fluid

passing up through the upper coil, certainly not enough to cool the large upper food chamber adequately, particularly since the latter chamber is the one most frequently used and is constantly being opened for introduction of food thereinto, or the removal of food therefrom. Hence, it will be apparent to anyone skilled in the art that Anderson's coils in the upper chamber must be maintained at a surface temperature below the freezing point of water. The fact remains that Anderson does not any where in his specification teach the invention disclosed in the present application."

Thus, the implication is left, as it is in appellant's brief, that in Bronaugh & Potter there is no liquid refrigerant evaporating in the cooling coil, although the specification briefly mentions the contrary (col. 5, lines 7-12):

"The refrigerant will be completely vaporized in coil 22 until the temperatures of the compartments near said minima, when some of the refrigerant will reach the coil 25 *in liquid form, and by vaporizing therein, will cool compartment 14.*"

The fact is as established by the testimony of appellant's own witnesses that the patent and refrigerators operate the same as Anderson and everything said about the operation of Anderson's cooling coil is equally true of the corresponding coil in Bronaugh & Potter.

Unfortunately, in the ex parte proceedings in the Patent Office, such information was never elicited from Bronaugh & Potter. It is reasonable to believe that the patent would never have been granted if the Examiner had known that the sole grounds of distinction which had been urged between Bronaugh & Potter and Anderson was illusory.

The feeble distinction which appellant tries to make between Bronaugh & Potter and Anderson is not valid and contrary to the testimony of appellant's witnesses. Both patents have the same elements operating in the same organization to produce the same results. Appellant's cavalier treatment of the Anderson patent should be no more successful in this Court than it was before the Trial Judge.

(B). In Stretching the Scope of the Claims in Suit in an Effort to Establish Infringement, the Claims Are Anticipated by the Davenport Patent No. 1,726,344.

Some of appellant's admissions are as follows: Appellant's brief, page 15: "Each element in the combination was old in the art."

Appellant's expert admitted (R. 844-851) that the combination of all of the following old elements was old: A cabinet 10, a cooling compartment 14, a freezing compartment 12 and 13, thermal insulation 33, 39 and 41 surrounding each compartment, a section of pipe (expander) 25 extending through the cooling compartment 14, a section 22 of the same pipe (expander) extending through the freezing compartment, volatile liquid refrigerant in the pipe, an expansion valve 23 in pipe 22, a single unit 15 for liquefying the vapor formed in the pipe, and a thermostat 31 in the cooling compartment 14 for automatically controlling the operation of a motor 16.

At R. 850-851 appellant's expert testified:

"Q. Well, now, their being all old elements, the elements that I have mentioned all being old, then the grouping of elements—call it a combination of

elements if you will—is an old combination of old elements, is it not, insofar as the parts I have mentioned?

A. So far as you have mentioned them, yes.”

Appellant’s expert admitted that the improvement made over Anderson was to provide the cooling coil with fins (R. 851-852).

Further statements with respect to the antiquity of the structure, function and results set forth in the claims of the Potter patent may be found in appellant’s brief, as follows: Page 18 (lines 11-18), page 22 (lines 15-21), page 45 (paragraph beginning at bottom of page), and page 47 (second paragraph).

While making all of the above admissions, appellant in a shift from its original position during the trial that the improvement of Bronaugh & Potter was in providing the cooling coil 25 with fins, now states that the alleged improvement is as follows:

(Br. 19) *“The undisputed and decisive fact is that nowhere in the prior art, whether in the patents issued before the invention or in the contemporaneous actual practice, is there taught a unitary, direct expansion machine by which a single volatile refrigerant provides, at the heat-exchange surfaces, simultaneously and uninterruptedly, both below 32°F. and above 32°F. Temperatures.”* (Emphasis appellant’s)

On pages 20, 22, and 25 of appellant’s brief, similar statements of the alleged invention are repeated.

In changing its position, appellant has apparently completely overlooked the Davenport patent No. 1,726,-344 (Def. Ex. 107), not cited by the Patent Office. It discloses a cold wall type of household refrigerator hav-

ing a freezing compartment D and a cooling or food storage compartment E, a cold wall freezing element *d* (see particularly Figs. 7, 8, 2 & 3) including spaced metal plates 11 and 12 between which the volatile refrigerant flows for creating a freezing condition in the freezing compartment D, a cold wall cooling element *e* for cooling the cooling compartment E (see Figs. 1 and 2), the cooling element (see Davenport p. 2, line 62) including "a long metal pipe or tube 9 coiled or disposed in substantially horizontal parallel stretches and secured to a metal plate or sheet 9a with which the coil has good thermal contact so that the plate 9a forming the lining of the back and top of the compartment acts as an efficient heat absorber." See also enlarged modification in Fig. 6. The freezing and cooling elements *d* and *e* are connected in series (see Fig. 1) and a single volatile refrigerant is forced therethrough by an electric motor operated pump or compressor B, just as in the patent in suit. In Davenport the heat-exchange surface of the freezing element *d* is smaller than the heat-exchange surface of cooling element *e* and accordingly they are differently proportioned.

With respect to the extended cooling element for the cooling compartment in Davenport, see page 3, lines 6 through 17 which read:

"From the above it will be apparent that even if the refrigerating element used to line the chamber from which heat is to be extracted is made of a thick heavy material so as to withstand successfully high pressures or the impact of heavy objects which might be stored in the chamber, the necessary contact area for heat removal to maintain ordinary refrigerating temperatures can be secured with an *extended refrigerating element* occupying not more

than ten per cent of the cubical volume of the compartment."

In fact as the specification states beginning on page 2, line 38:

"The invention relates especially to the form, extent, disposition and arrangement of the refrigerating elements, utilized to extract heat from the freezing compartment D and the food storage compartment E."

The heat-exchange surfaces of the freezing and cooling elements *d* and *e* are purposely differently proportioned and thereby balanced in this regard so that when the single volatile refrigerant is passed through those freezing and cooling elements *d* and *e*, the heat-exchange surface of the freezing element will be maintained at a temperature below 32°F. and the heat-exchange surface of the cooling element will be maintained at a temperature above 32°F. (ordinary refrigerating temperatures, page 3, lines 13 and 14), simultaneously and continuously.

It should be mentioned that the Davenport patent discloses a direct expansion type of freezing and cooling system wherein an expansion valve *i* is provided. The specification at page 2, line 35, refers to "a suitable throttling or expansion device *i* being interposed to control the rate of feed of the condensed refrigerant." While Davenport does not specifically mention a thermostat, obviously some such device (as disclosed in his companion patent 1,731,711, p. 1, lines 82-90) would be employed for controlling the operation of compressor B driven by electric motor C.

Attention is invited to a reading of the specification of this Davenport patent because there is too much to quote. However specific attention is invited to prior art teachings on page 1, lines 17 through 25:

“When the contact medium from which heat is absorbed is the atmosphere, it is common practice to *extend the contact area by various expedients such as fins*, corrugations, tubes, coils, etc., as it is well known that a given quantity of heat can be absorbed from air with less temperature differences between the air and the element when the contact area is large than when it is relatively small.”

See also page 1, lines 50 through 60; lines 82 through 87; page 2, lines 10 through 68; page 3, lines 6 through 17; lines 28 through 37.

From the above it is clear that if the Potter claims are stretched to read on the accused structure, they read in identically the same manner on the disclosure of the Davenport patent. If the accused refrigerators are unitary machines adapted to operate simultaneously two balanced heat-exchange surfaces of differing proportions, one at below 32° F. (frosting) and the other above 32° F. (non-frosting) (Aplt's Br. 22), then the same is equally true of Davenport.

If the claims are construed to be infringed they are invalid for as said in *Knapp v. Morss*, 150 U.S. 221, 228, 37 L. Ed. 1059 (1893), and in many other decisions:

“that which infringes, if later, would anticipate if earlier.”

Approached in another way, attention is invited to claim 10 for example of this Davenport patent which reads as follows:

“In a closed cycle refrigerating system, a freezing compartment and a refrigerating compartment, and interconnected refrigerating elements arranged to contain vaporizing refrigerant and to extract heat from said compartment, one of said elements forming at least a part of the lining of its compartment.”

The Davenport patent was granted August 27, 1929. It expired and became public property on August 27, 1946, before appellees made and sold refrigerators. Despite this fact, appellant is making a desperate effort to reclaim as its monopoly that which was fully disclosed in the prior art and was a part of the public domain before appellees made and sold the accused refrigerators.

(C). The Bronaugh & Potter Claims Are Invalid for Lack of Invention Over the Larkin Patent or Larkin in View of Anderson.

Assuming that Anderson or Davenport do not completely anticipate Bronaugh & Potter we fail to see where they made any patentable advance over these prior art patents, particularly in view of the Larkin patent.

The Larkin patent No. 1,776,235 (Def. Ex. 106), which was not cited by the Patent Office, is a complete disclosure of a refrigerator using a volatile refrigerant and having a cooling compartment with coils 7, 8, 9 and 10 therein having fins or plates 12 for performing the same function and obtaining the same results claimed by Bronaugh & Potter.* In the second paragraph of his

*The presumption of validity of Bronaugh and Potter is overcome by the fact that such pertinent references as Larkin and Davenport were not considered by the Examiner in the Patent Office. *Jacuzzi Bros. v. Berkeley Pump Co.*, 9 Cir., 191 F. 2d 632, 634; *R. Hoe & Co. v. Goss Printing Press Co.*, 2 Cir., 30 F. 2d 271, 274.

specification Larkin says his "invention relates to refrigeration in general and particularly to cooling units adapted for use in display case refrigerators, refrigerator cars, storage rooms, *household* refrigerators, etc."

The following is quoted from the Larkin patent, page 2, lines 113 through line 18 on page 3 (Def. Ex. 106):

"With the present type coil properly arranged in the casing, a temperature of 36 degrees F. can be maintained in the casing without frosting the plates at all, and consequently without freezing or dehydrating any of the contents of the casing whatever. The very large surface area and rapid heat absorption of the aluminum plates all lead to a rapid temperature drop when the unit is in operation. Since this temperature drop is less than two degrees, it follows that each refrigerating cycle of operation must be of very short duration, and consequently, must greatly reduce the amount of power required to maintain it in operation.

"Whatever little moisture may be picked up from the air in the casing is deposited on the plates; and, because of the large surface area of these plates, must when condensed, be spread on such plates in a very thin film, which is constantly being removed by the circulating air and returned to the air and meats from which it was taken.

"Where below freezing temperature must be maintained on the plates, as in prior coolers, it is obvious that any moisture taken from the meats become condensed and frozen on the plates and cannot be removed therefrom by the circulating air. In this case, the meats not only lose weight, which cannot be recovered, but also deteriorate greatly in quality.

"This maintenance of humidity is only one of the most important results flowing from the use of cooling coils designed as disclosed herein."

See also page 5, lines 88-105 of Larkin.

Larkin not only discloses a moist cold compartment in a mechanical refrigerator similar to that appellant argues Bronaugh & Potter disclose, but Mr. Bronaugh testified (R. 165, 166) that they had been using Larkin coils in commercial work and when they came to make up the patented refrigerator they actually used a Larkin coil.

The finned coil which Bronaugh & Potter placed in the cooling compartment of the old household refrigerator having both freezing and cooling compartments (Anderson) was the same old Larkin structure, performing the same old function, and producing the same old result, and no more (Aplt's Exp., R. 852-7; see quotation of testimony at pages 15, 16 above).

Appellant's witness, Mr. Quinn, confirmed that the existence and operation of fin coils for cooling purposes were old. He said (R. 684):

"Q. Well, of course, back there you say in 1925 or 1926 the fins were used for cooling surfaces, for increasing the cooling surfaces, and that well-known at that time—the function of fins—

Q. That principle was known a long time before that?

A. Well, I should think it would be obvious almost. Yes, the bigger the surface, the easier the contact with the air."

In this connection it should be noted that there is not a word in the specification of the Bronaugh & Potter patent that element 25 is a fin coil rather than the conventional tubular coil. This subject will be discussed later in the brief under the question of the sufficiency of the disclosure of the patent in suit.

Certainly Bronaugh & Potter did nothing beyond the skill of the ordinary mechanic in the refrigerator field.

To paraphrase the language in the *Great Atlantic & Pacific Tea Co. v. Supermarket Equip. Corp.* case, 340 U.S. 147, 153, 95 L. Ed. 162 (1950), the patentees here have added nothing to the total stock of knowledge, but have merely brought together segments of the prior art and claimed them in congregation as a monopoly.

The only reasonable conclusion from undisputed facts here is that the patent in suit lacks invention. The familiar language of the Supreme Court in the *A. & P.* case is applicable (340 U.S. 147, 152):

“Courts should scrutinize combination patent claims with a care porportioned to the difficulty and improbability of finding invention in an assembly of old elements. The function of a patent is to add to the sum of useful knowledge. Patents cannot be sustained when, on the contrary, their effect is to subtract from former resources freely available to skilled artisans. A patent for a combination which only unites old elements with no change in their respective functions, such as is presented here, obviously withdraws what already is known into the field of its monopoly and diminishes the resources available to skillful men.”

See also the decisions of this Court in *Himes v. Chadwick*, 199 F. 2d 100 (1952); *Kwikset Locks v. Hillgren*, 210 F. 2d 483 (1954); and *Berkeley Pump Co. v. Jacuzzi Bros.*, 214 F. 2d 785 (1954).

In attempting to distinguish from *Larkin*, appellant states (Br., 15) that it is of the “flooded or float valve type” as contrasted to the “direct expansion system” of *Bronaugh & Potter* (Br., 5). Assuming this is so, although appellant’s expert, Mr. Parker, had no such diffi-

culty with the Larkin patent, it in no way reduces the efficacy of the reference. Larkin still uses a volatile liquid refrigerant, just like Bronaugh & Potter, whose flow is controlled by a float valve rather than an expansion valve into a fin coil, which in Bronaugh & Potter, according to Mr. Parker, was supposed to be the invention. Also, none of the Bronaugh & Potter claims limits the type of refrigerating system other than to one using a volatile refrigerant which applies equally to Larkin and Bronaugh & Potter.

Of course, even if the distinction appellant is attempting to make were material, it would not save the patent because, *undeniably, Anderson and Davenport 1,726,344 have direct expansion systems just like Bronaugh & Potter.*

Seldom does one find such literal appropriation of prior art devices and assembling of them by a patentee. Courts often, in finding lack of invention, discuss what the patentee did in terms of borrowing an element here and another element there and combining them to produce the expected or suggested result. However, usually in these cases, there has been no conscious borrowing from the prior art by the patentee. In our case it is admitted that conscious borrowing is precisely what the patentees did.

Nor can it be said that the defense of no invention, because of the disclosure of Anderson in view of Larkin, is improper. Anderson clearly shows the same organization of elements as Bronaugh & Potter and Larkin discloses a fin coil for precisely the purpose it was employed by Bronaugh & Potter and, in fact, Bronaugh & Potter used a Larkin coil in building their early refriger-

erators. We are therefore completely justified in considering these two patents together in determining whether or not Bronaugh & Potter made any patentable invention. (*Richmond Screw Anchor v. Umbach*, 7 Cir., 173 F. 2d 521, 532 (1949)).

Certainly the addition of fins to the coil 40 of Anderson would not affect any element of the so-called "combination" other than the cooling chamber. Thus according to appellant's own testimony what Bronaugh & Potter did amounted to merely a modification or substitution of an element in an admittedly old combination. If patentable at all it would have to be for the element per se. This was impossible because Bronaugh & Potter merely used the coil previously patented by Larkin and purchased on the open market. (*Bassick Co. v. Hollingshead Co.*, 298 U.S. 415, 425, 80 L. Ed. 1251 (1936); *Lincoln Engineering Co. v. Stewart-Warner Corp.*, 303 U.S. 545, 549, 82 L. Ed. 1008 (1938)).

(D). The Bronaugh & Potter Claims Are Invalid Because They Cover a Mere Aggregation of Old Elements.

The undisputed facts here can lead to but one reasonable conclusion, namely, that the Bronaugh & Potter claims cover admittedly old elements, each of which performs its old function with no new or surprising results. The whole does not exceed the sum of the parts. The cabinet, the cooling compartment, the freezing compartment, the insulation, the expanders (coils), the refrigerant, the expansion valve, the liquefying unit, and the thermostat, were all old, *and were old in combination as shown in the Anderson patent* (Aplt's Exp., R. 844-50). Each of these old elements performed the same old

function and obtained the same old results when placed in the box disclosed by Bronaugh & Potter (Aplt's Exp., R. 844-50). Even if Larkin fins, which Bronaugh & Potter did not mention, may be incorrectly added to their disclosure, the result is the same because these fins were also old, and performed the same old function and obtained the same old result (Aplt's Exp., R. 852-3).

The only reasonable conclusion that can be drawn from the testimony of appellant's expert is that the whole does not exceed the sum of the parts. The Trial Court properly reached this conclusion (R. 73).

Under the test laid down by the Supreme Court in the *A. & P.* case (340 U.S. 147, 151), the claims are clearly invalid.

"The negative rule accrued from many litigations was condensed about as precisely as the subject permits in *Lincoln Engineering Co. v. Stewart-Warner Corp.*, 303 U.S. 545, 549: 'The mere aggregation of a number of old parts or elements which, in the aggregation, perform or produce no new or different function or operation than that theretofore performed or produced by them, is not patentable invention.' To the same end is *Toledo Pressed Steel Co. v. Standard Parts, Inc.*, 307 U.S. 350, and *Cuno Engineering Corp. v. Automatic Devices Corp.*, 314 U.S. 84. The conjunction or concert of known elements must contribute something; only when the whole in some way exceeds the sum of its parts is the accumulation of old devices patentable. Elements may, of course, especially in chemistry or electronics, take on some new quality or function from being brought into concert, but this is not a usual result of uniting elements old in mechanics. This case is wanting in any unusual or surprising consequences from the unification of the elements here concerned, and there is nothing to indicate that

the lower courts scrutinized the claims in the light of this rather severe test."

The Seventh Circuit's appraisal of the alleged Potter invention in *Refrigeration Patents Corp. v. Stewart-Warner Corp.*, 159 F. 2d 972, was as follows:

(p. 976) "Appellees' argument continues: 'As to the law cited by defendant . . . that the claims are for an exhausted combination and void as claiming more than what was invented, we have shown that the invention was not in a particular element but *in a new combination of elements which cooperated to produce new results.*'

"We cannot view appellees' stride in the refrigerator art with such enthusiasm—there was here no *new* combination of elements. There was at best an old combination with some of the elements somewhat varied, such as a finned coil; or an additional element added, such as a 'thermosensitive means in one of the compartments for controlling said refrigerating means;' or a duplication or aggregation of old elements, such as the two separated insulated compartments in the box, instead of one old insulated compartment."

(p. 978) "Element 6, appearing in claim 10 only, does present a more serious question. It is a 'non-frosting coil in the cooling compartment.' It is this non-frosting coil which saves the housewife the chore of repeated defrosting of the box, with some possible inconvenience and possible spoilage of foods, especially frozen foods. However, here again we have only a claim of a *result* without the statement of the *means* whereby that result is to be obtained. Nowhere in the specifications or drawings is a special kind of coil shown whose structure, such as finning, might be a frost collecting deterrent. Indeed, it was agreed by the experts of all parties that a coil may be non-frosting when it is operated in one way and become frosted if operated

in another way. Clearly, the non-frosting coil is the result of the combinations upon which plaintiffs seek to sustain the patents." (Emphasis Court's.)

U. S. Air Conditioning Corp. v. Governair Corp., 10 Cir., 216 F. 2d 430 (1954), is a pertinent case involving combination type mechanical claims on a unitary air conditioning system. The factual situation is very close to ours in that the claims called for elements like those present in the Bronaugh & Potter claims. The Court of Appeals reversed the District Court and held the patent invalid on the basis of aggregation of old elements and the mere carrying forward of an old idea which involved no more than a change in form, proportion or degree.

Appellant, recognizing that the courts have set certain standards of invention, particularly for mechanical combination type patents, as mentioned in the *Berkeley Pump*, *Packwood* and *Nachtman* cases (*supra*), repeats (Aplt's Br., 7, 25, 37) that the combination of elements in the Bronaugh & Potter patent define patentable invention because the elements in combination operate differently to produce a new result, viz., a single refrigerator having "below freezing in one compartment and moist cold in the other" (Aplt's Br., 25).

Even if Anderson and Davenport did not disclose the patented combination, and contrary to appellant's repeated denials, Bronaugh & Potter did no more than assemble in one cabinet the admittedly existing freezing compartment with the admittedly existing moist cold compartment to produce a single refrigerator having a freezing and a moist cold compartment. One and one still make two.

(E). The Bronaugh & Potter Patent Is Invalid Because There Is an Entire Absence of Written Description of the Alleged Improvement or Advance or Change Consisting in Providing an Old Cooling Coil with Fins and Therefore There Is Lack of Compliance with 35 USC 112.

Section 112 of 35 USC reads:

“The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.

“The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

“An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claims shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof.”

On cross-examination appellant's expert admitted that the alleged Potter improvement was in providing the cooling coil with fins. He testified:

“That is the change he made.” (R. 852)

If that is the change or advance or alleged invention that was made, certainly it would be expected that it would be described in the specification because of the mandatory requirements of the above statute.

A reading of the patent specification clearly establishes that not a single word is said about a fin or a cooling coil having a fin for performing any function whatever. Nor is any equivalent structure described to perform the function of fins in the patent. Appellant's expert, on cross-examination, admitted this fact (R. 864). Under such circumstances the patent is clearly invalid.

In connection with this point attention is invited to the much cited decision in *Permutit Co. v. Graver Corporation*, 284 U.S. 52, 76 L. Ed. 163 (1931).

(p. 57) “* * * There is no mention in the specification of either a ‘free’ or a ‘locked’ zeolite bed; or of the alleged discovery that a rising space above the zeolite bed is necessary for the successful operation of the softener; or of the need of a device to prevent the lighter grains of zeolite from passing out in back washing. Nor does Claim 1 or Claim 5 make mention of a ‘free’ zeolite bed. Claim 1 is for ‘a filter bed consisting of a layer of sand or quartz and a layer of zeolite or hydrated alumino-silicates disposed on the layer of sand or quartz.’ Claim 5 for ‘a filter bed consisting of a layer of zeolites or alumino-silicates, supporting means for said layer.’ As the patentee has thus failed to give in the specification ‘a written description’ and has likewise failed particularly to point out and distinctly claim the free zeolite bed, as ‘the part, improvement, or combination which he claims as his invention or discovery,’ the patent is void.”

Appellant's expert in the case at bar testified that the rectangular outline designated 25 in Fig. 2 of the patent in suit represents, in his opinion, a fin (R. 759). Assuming such to be a fact, it would be of no avail where there is an entire absence of description of the alleged in-

vention. See page 60 in the same *Permutit v. Graver Corporation* decision where the Court states:

“Moreover, while drawings may be referred to for illustration and may be used as an aid in interpreting the specification or claims, they are of no avail where there is an entire absence of description of the alleged invention or a failure to claim it.”

See also *Foxboro v. Taylor Investment*, 2 Cir. 157 F.2d 226 (1946):

(p. 232) “. . . but the interpretation becomes doubly impossible when we remember that no invention can be saved by features which appear only in the figures and are not mentioned in the text” (citing *Permutit* case).

It is submitted therefore that the patent is invalid because it does not meet the requirements of the statute which demands that the specification shall contain a written description of the invention in full, clear, concise and exact terms. Here there is an entire absence of a description of a fin coil which plaintiff's expert testified was the change which the patentees made.

In addition, the claims are invalid because they are improperly functional in a manner to violate the requirements of Section 112 of 35 USC. The claims call only for a result at the point of alleged novelty. For example, the claims specify “a cooling refrigerant expander having heat-conducting surfaces within the cooling compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature above 32°F. while withdrawing heat from said compartment.” This is not a definition of structure. It is a statement of function. The last sentence in the above quoted section 112 does not save the claims because there is no description in

the specification of the structure involved in "constructed and arranged."

Again, the specification and claims violate Section 112. There is no written description whatever of the fins which appellant's expert said were the only change over Anderson. The description and claims are indefinite and vague. Foundation for the claims is lacking in the specification. *Schriber-Schroth Co. v. Cleveland Trust*, 311 U.S. 211, 214, 85 L. Ed. 132 (1941); *Permutit Co. v. Graver Corporation* (supra); *Refrigeration Patents Corp. v. Stewart-Warner Corp.* (supra); *National Theater Supply Co. v. Da-Lite Screen Co.*, 7 Cir., 86 F. 2d 454, 455 (1936).

(F). The Patent in Suit Does Not Satisfy the Criteria and Standards Established by This Court for Patentable Invention.

The foregoing discussion of the Potter patent, the prior art, and appellant's own testimony, establish:

1. All of the Potter elements are admittedly old. Potter admittedly did not invent moist cold refrigeration, or a finned coil, or a "non-frosting" coil, or a household refrigerator with two compartments, one for freezing foods and the other for cooling foods. These were all well known in the art prior to Potter.

2. If, as appellant's expert contended (R. 852), the only change which Potter made over Anderson was in adding old fins to the old cooling coil, these fins which were "stock items" (Aplt's Br. 46), gave no new or surprising results in the Potter cooling compartment. They had long performed the same function and given the same results in refrigerator cooling compartments.

3. If, as appellant contends in its brief here (p. 22), the alleged Potter invention is "a unitary machine with such device (i.e., a single volatile refrigerant device) to operate simultaneously two balanced heat-exchange surfaces of differing proportions, one at below 32° F. (frosting) and the other at above 32° F. (nonfrosting) . . .," then the prior Anderson and Davenport patents meet the Potter structure, element for element, and are anticipations. The Anderson and Davenport heat-exchange surfaces operate above 32° F. and are "nonfrosting" in the same sense as Potter's. In each machine (Anderson, Davenport, Bronaugh & Potter), the adjustment of the adjustable expansion valve, as was well known, determines the rate of evaporation in and the temperature of the cooling coil, and the degree of "frosting" of the coil.

4. On either of appellant's theories as to what constitutes the alleged invention, each of the old elements in the Potter box performs its old, well known function and gives its known, expected results—and no more. The fins give better heat transfer, just as they had for years in cooling compartments. The expansion valve had long been adjustable so as to regulate the flow of refrigerant to control the rate of evaporation and the resulting temperature of the coil.

On either of appellant's theories, Potter does not meet the standards of invention.

Berkeley Pump Co. v. Jacuzzi, 214 F.2d 785, is particularly pertinent because the facts in that case were much more favorable to the patentee than they are to Potter. This Court described the device there involved as follows (p. 789-91):

"In his testimony Carpenter (the patentee) frankly stated that he laid no claim to invention of any of the parts or elements incorporated in his Berkeley pump. His position is epitomized in the claim that his invention is 'the complete concept of the entire system * * * what it will do, and how it does it.' This boils down his argument to the end product of integration. * * *

"One unpatented combination pump (known as the 'Advance Pump') bore a marked similarity to the Berkeley pump, although it preceded application for a patent on the Berkeley pump by a half-dozen years. This 'Advance Pump' used a jet device to raise the water to the top of the casing, instead of using staged turbines. * * *

"* * * It was the use of the jet method of raising water from the well which kept the 'Advance Pump' from being sufficiently efficient to perform both high and low pressure functions simultaneously.

"Substantially all that was needed, however, to provide the needed 'dual' capacity to convert the 'Advance Pump' to the Berkeley pump in suit was to use turbine impellers to raise the water in the well, instead of the jet-type of construction it employed.

"There was absolutely nothing new in the pump art about turbine impellers. * * *

* * *

"Like the 'Advance Pump', the Berkeley pump is essentially two pumps, arranged in sequence: one a deep-well turbine type pump to bring the water to the surface into a chamber, and the other a shallow-well type high-pressure pump to pump a small part of that water at high pressure. (The larger part of the water brought to the chamber is permitted to flow out at low pressure for irrigation purposes, without going through the high-pressure pump.)

* * *

"As indicated above, it has never been the assertion of appellant that any of the elements combined in its pump are original. It is admitted that essentially the Berkeley pump consists of two separate pumps operated from a single motor. The first pump raises water from a deep well and creates a pool of water in the low-pressure discharge chamber. The second pump operates in its usual manner, as a high-pressure shallow-well pump, and the 'shallow-well' upon which it operates is the pool of water collected at the surface in the discharge chamber. It is this combination of two pumps, arranged to operate with a single motor so as to make available simultaneously a large volume (100 to 300 gallons per minute) of low pressure (one pound per square inch) water for irrigation, and a small volume (about twenty-five gallons per minute) at high pressure (twenty pounds or more per square inch) for household use.

"The Berkeley pump is a clever and useful design, and the original combination of the two pumps is the claimed invention. It is claimed that this pump produces a new and beneficial *result* by means of a *new mode of operation*. However, the testimony of Mr. Carpenter, President of the appellant, is clear that the only new result produced is the simultaneity of both high and low pressure pumping, for the anticipating 'Advance Pump' could, without that particular attribute, pump either high or low pressure water. And the only substantial difference between the 'Advance Pump' and the Berkeley pump is the substitution of turbine impellers for a jet type pump. His testimony also makes it clear that neither of the two pump elements used in the Berkeley pump operate in any different manner, nor do they accomplish any new or different result or purpose, than they did prior to their inclusion in the Berkeley pump. These two elements are used for exactly the same operation, and accomplish exactly the same purpose as they previously did. The mere *arrange-*

ment of the two pumps in a manner similar to the 'Advance Pump' arrangement, is insufficient to bring the device within the orbit of patentable invention under the A. & P Tea rule we have noted."

In affirming a judgment for defendant entered on a directed verdict, this Court said in the same case as to the standard of invention, page 787:

"... it should be pointed out that we are here dealing with a mechanical device which concededly involves only a combining of old elements all of which were well known in the prior pump art. Under the pleadings the most vital question to be answered is whether the Berkeley combination in suit constitutes a patentable invention.

"In a recent decision, *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp.*, 1950, 340 U.S. 147, 71 S. Ct. 127, 130, 95 L. Ed. 162, hereafter referred to as *A & P Tea*, the Supreme Court considered and disposed of the problem of what sort of combinations the lower courts are free to regard as patentable inventions in the mechanical field. In this decision it established the criteria and standards which must now be applied in determining whether a combination patent is valid. In *Kwikset Locks v. Hillgren*, 9 Cir., 210 F.2d 483, 486, certiorari denied, 347 U.S. 989, 74 S. Ct. 852 we commented on and applied the standard approved by the high court, and the rule we followed in *Kwikset* is applicable to the facts of the instant case. Therefore we have examined the record on appeal to determine whether or not it clearly establishes that the Berkeley device meets the rigid standards of invention we must apply, in default of which it must be regarded as an example of mechanical skill in assembling old elements *the previous functional operations* of which are not changed by their arrangement and inclusion in the device. * * *"

The recent decision of this Court in *The Coleman Co., Inc. v. Holly Manufacturing Co.*, 233 F.2d 71 (1956), much relied upon by appellant (Br. 34-7), is plainly distinguishable on the facts, and Potter clearly does not satisfy the standards of invention there enunciated by this Court.

Four elements in the patented structure in the *Holly* case were new. This Court further found that "a 'heat exchanger' or 'economiser' of this particular construction and arrangement had never been embodied in any type of mechanical wall heater apparatus prior to its application and use in the *Holly* device" (233 F.2d 79).

This Court stated the test to be whether "an 'element' in the *Holly* device . . . will (to quote the Supreme Court) 'perform any additional or *different function*' (i.e., a special purpose) when brought into concert with the other elements in the combination than it would perform out of it." (Court's emphasis.)

The Potter patent does not meet that test, since the old freezing compartment and the old cooling compartment perform the same in the combination as out of it.

In *Hansen v. Safeway Stores*, . . . F. 2d . . . , 110 USPQ 170 (June 27, 1956), recently decided by this Court, the patented structure embraced four elements, which the Court of Customs and Patent Appeals had previously held constituted a patentable invention. This Court held that "there was sufficient evidence to raise a question of fact as to whether the Hansen patent performed a new and useful function by a combination of these elements known in the prior art."

In the case at bar, the only reasonable conclusion that can be drawn from the plaintiff's own evidence

(particularly the testimony of Parker, Bronaugh, and Bade) is that in Potter there is no new function.

The Potter patent does not meet the standard of invention prescribed in the *Hansen* case.

Admittedly Potter does not differ from the prior Anderson patent in structure, nor can Potter distinguish the operation of his refrigerator from Anderson who also has an adjustable expansion valve. The handle on the valve 33 in Anderson (see Figs. 1 and 2) is for the very purpose of manual adjustment by the user to regulate the rate of flow of the refrigerant in the freezing and cooling coils. Potter provides a corresponding handle or knob on his valve 23 (see Fig. 1).

It is submitted that the Anderson structure is a complete anticipation, and that in any event, the adjustment of an adjustable part does not meet the standards of invention of this Court.

It is well settled that a mere change in form or adjustment, manifesting a difference in degree only, is not invention. *Palmer v. Kaye*, 9 Cir., 185 F.2d 330, 332 (1950).

(G). The Claims of the Bronaugh & Potter Patent Are Invalid for Late Claiming.

All four of the Bronaugh & Potter patent claims must, according to appellant, call for a "nonfrosting" coil.* As explained in the foregoing argument, appellees deny that there is any such thing, but if there is, then these claims

*Appellant's brief, page 51, next to last line, states: "What was essential to the invention, and was amply disclosed in the specification, was a *non-frosting coil* which could be either a finned coil or any other type of extended surface coil such as a brine tank."

are invalid since they were not filed within the two-year statutory period relating to public use or sale, then in force (old R.S. 4886 changed to one year Aug. 5, 1940), now 35 U.S.C. 102.

The first mention, in either the specification or the claims of the original Bronaugh & Potter patent 2,056,165, of which the present patent is a reissue, of a "non-frosting" coil, was on December 2, 1932 (file wrapper, Def. Ex. 101, pp. 25-26).

Mr. Bade testified that a refrigerator known as the "Barry box" was constructed around April or May, 1930 (R. 198), and that it was sold to Mr. Barry in June, 1930 (R. 200). This refrigerator and other refrigerators made at that time were constructed in accordance with the principles of the Bronaugh & Potter invention (Potter, R. 326, 328). Mr. Bade also testified that this Barry Box had differential insulation around the two compartments and a fin coil in the refrigerating compartment (R. 201).

The sale of the Barry Box establishes that there was public sale more than two and a half years prior to the assertion in the Patent Office of the subject matter claimed (non-frosting coil).

With respect to the so-called proportionate or differential insulation appearing only in Claims 3 and 4† of

†Commercially (Bommer, R. 577-78) and as shown in the prior patents (see for instance Davenport 1,769,118, Fig. 1, "additional insulating material 19"), proportionate or differential insulation was old. Proportionate or differential insulation in this case is another way of saying difference in heat leakage into the freezing and cooling compartments. Of course Anderson shows such difference in heat leakage because of the disproportionate wall areas of his freezing and cooling compartments (Aplt's Exp., R. 860-861).

the Bronaugh & Potter patent, the subject of late claiming, as applied to the original Potter patent (2,056,165) was considered in *General Electric Company v. Refrigeration Patents Corp.*, 71 USPQ 236 (W.D. N.Y. 1946). In connection with Claim 11 of the original patent, the Court held that the claim was invalid because it was inserted in the patent more than two years after the subject matter was first publicly used and sold. The first mention of "proportionate or differential insulation" was inserted in the application of the original Bronaugh & Potter patent by an amendment dated January 29, 1934 (Def. Ex. 101). This, of course, was more than two years after the sale of the Barry box in June of 1930.

All of the claims of the Bronaugh & Potter patent are invalid for late claiming on the basis of *Muncie Gear Works v. Outboard Marine & Mfg. Co.*, 315 U.S. 759, 86 L. Ed. 1171 (1942), and *General Electric Company v. Refrigeration Patents Corporation* (supra).

III. THE CLAIMS OF THE BRONAUGH & POTTER PATENT ARE NOT INFRINGED.

(A). The Accused Refrigerators Are of the Cold Wall Type Whereas the Refrigerator of the Patent in Suit According to Appellant's Witnesses Is of the Finned Coil Type. Admittedly They Are Different in Structure, Function and Result.

Each of the four claims in suit contains the following element:

"a cooling refrigerant expander having heat-conducting surfaces within said cooling compartment and

constructed and arranged to maintain its heat-conducting surfaces at a temperature above 32° F. while withdrawing heat from said compartment,

whereby air in said cooling compartment is cooled thereby to a temperature above 32° F. and is maintained at a humidity whose relative value is at least 100% at 32° F.,"

Applied to the patent in suit, the cooling compartment is shown at 14. The cooling refrigerant expander (coil) is shown at 25. This expander (coil) 25 and its heat-conducting surfaces are within the cooling compartment 14 (Aplt's Exp., R. 888). The cooling expander (coil) 25 is constructed allegedly to have fins (not described in the specification and of doubtful showing in the drawings) to maintain the heat-conducting surfaces thereof above 32° F. while withdrawing heat from said cooling compartment 14.

The Potter refrigerator of the patent in suit is what is known as the finned coil type of refrigerator or arrangement (Aplt's Exp., R. 903).

Appellant's expert, Mr. Parker, also testified (R. 903) that the accused refrigerator is what is known as a cold wall type of refrigerator which is structurally and functionally different from the finned coil type (R. 903). He again stated that the finned coil type of refrigerator as exemplified by the patent in suit and the cold wall type of refrigerator as exemplified by the accused refrigerator are structurally different and are two separate types (R. 910).

Potter's copatentee, Mr. Bronaugh, testified that they also explored the cold wall idea and because of the adverse results they obtained, they abandoned the cold wall idea and "devoted our entire efforts from there on to the finned coil concept of cooling that fresh foods compartment" (R. 128).

Therefore it is established by appellant's witnesses that the cold wall type of refrigerator exemplified by the accused refrigerator and the finned coil type of refrigerator as exemplified by the patent in suit differ in structure, in functioning and in results. Clearly there can be no infringement.

But now let us explore the fantastic efforts of appellant's patent expert in attempting to apply this above quoted claim element to the accused refrigerator. In his attempt we submit it will become apparent that he exercised a super imagination which drifted far beyond the realms of reasonableness and logic.

Of course it is well understood that patent claims must be read in the light of the disclosure of the patent and that the claims cannot be construed more broadly than the alleged invention (*Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 510, 61 L. Ed. 871 (1917)).

In the first place, it is clear that the cooling compartment 14 in the patent is the space in which food is stored. The specification calls it "a food storage compartment." The cooling expander (coil) 25 and its heat-conducting surfaces are within this cooling compartment 14 and as a result thereof appellant correctly states that an air circulation is set up in the cooling compartment 14 because warm air is drawn to the coil 25 and the relatively cooler air takes its place. The asserted advantage as a result thereof is that mold will not form on the food in the cooling compartment.

Appellant's expert witness admits that the accused refrigerator does not have any finned coils in the cooling chamber. At R. 859 he testified:

"Q. Well, now, Admiral does not have any finned coils in the cooling chamber, does it? A. No."

At R. 1371 he also testified:

"Q. Now, the cooling coils in the accused structure are not within the cooling compartment in so far as the space in which the food is placed, is that correct?

A. That's correct."

To comprehend what the application of this claim element by appellant's expert witness is, attention is invited to Plaintiff's Exhibit 8A (Appendix Plate V).

At the left there is shown a rear perspective view of the cooling compartment B with the cooling coil D wrapped around the outside back and side walls thereof. At the top of the outer back wall there is a horizontally arranged oblong cold plate G known as a secondary transfer plate. Lying between the outside back wall and the plate is a portion of the outside cooling coil and that portion is the condenser portion of the cooling coil because as will be pointed out later, the vaporized refrigerant is recondensed therein preparatory to its passing down through the vertical tube portion and then laterally outwardly in opposite directions and upwardly to complete the circuit. It will be appreciated that the liquid volatile refrigerant in passing through this cooling coil absorbs heat from the cooling compartment and in so doing vaporizes and then is recondensed in the condenser portion of the cooling coil.

At the right hand side of the exhibit there is shown a freezing compartment A at the top. Around the outside of the top, bottom and one side wall of this freezing compartment the freezing coil C is wrapped. A portion of the

freezing coil is attached to another horizontally arranged oblong plate H known as the primary transfer plate. When the parts are assembled the primary transfer plate H and the secondary transfer plate G are secured to each other as a result of which the primary transfer plate which is reduced in temperature by the zero degree liquid refrigerant passing through the attached freezing coil, lowers the temperature of the secondary transfer plate. This in turn recondenses the refrigerant vapor as it passes through the condenser portion of the cooling coil attached to the secondary transfer plate.

In attempting to apply the claim element in question, the position of appellant's expert witness Mr. Parker was:

1. That the accused cooling coil although it is wrapped around the outside wall of the cooling compartment, is within the cooling compartment because it is located within the insulation surrounding the cooling compartment.

At R. 890 he testified:

"... to me everything that is within the refrigerated space surrounded by the insulation about the cooling compartment is within the cooling compartment."

2. That the "cooling refrigerant expander (coil) having heat-conducting surfaces within the cooling compartment" is found in the accused refrigerator because the inner walls of the liner of the cooling compartment are regarded as the heat-conducting surfaces of the expander (coil) which is outside of the liner or walls of the cooling compartment, and the cooling refrigerant expander (coil) is regarded to be the coil outside of the liner

or cooling compartment, plus the secondary transfer plate, plus the primary transfer plate, plus the section of the freezing coil engaging the primary plate (R. 810-11).

Thus plaintiff's expert witness, Mr. Parker, said that cooling coil 25 located in the cooling compartment 14 of the patent in suit and as set forth in the claim element in question, in the accused refrigerator is the cooling coil on the outside of the liner or cooling compartment, plus the secondary transfer plate, plus the primary plate, plus the freezing coil section engaging the primary transfer plate of the accused refrigerator; also that the inner surfaces of the liner or cooling compartment in the accused refrigerator constitute the heat-conducting surfaces or fins on the cooling coil 25 in the cooling compartment 14 in the patent in suit (R. 810, 811). See Mr. Parker's testimony at R. 810 and 811 as follows:

"To go back to the beginning of it, 'a cooling refrigerant expander having heat-conducting surfaces within the cooling compartment.' The transfer plate—the primary transfer plate about which I have testified and which is marked 104 on Plaintiff's Exhibit 8-A-1 is the only means for abstracting heat from the secondary or the moist cold compartment. Its heat transfer — its heat-conducting surfaces within the cooling compartment are the actual heat-conducting surfaces of the liner itself which conducts heat to the expander on the primary plate 104."

Mr. Parker then said (R. 812):

"It's a long way of saying that a moist cold is maintained in the moist cold storage compartment."

Then to add more confusion to confusion, appellant's expert stated that contact plates, namely the primary transfer plate and the secondary transfer plate, act as

fins (R. 799) or in other words cooling coil heat conducting surfaces.

Appellant's expert, referring to the cooling coil or expander, stated at R. 887:

"A. Expander is any member in which a refrigerant, and to me the term includes the duct itself and whatever conducting surface it has which carry heat to the duct."

Also at R. 895 he said:

"To me the expander, term 'expander' in those claims means that pipe plus whatever heat exchange surfaces are attached or connected to it."

3. Another position taken by appellant's expert in applying the claim element to the accused refrigerator and which he emphasized was that the section of the freezing coil which is secured to the primary transfer plate is a part of the cooling refrigerant expander (R. 895).

Also at R. 1371 Mr. Parker testified:

"Q. Now, then, you have also stated, I believe, that the cooling expander or coil or duct, part of it is found on the, attached to the plate of the primary transfer plate of the primary system; is that correct?

A. That is true."

Mr. Parker testified (R. 895-896):

"Q. Is there a condition in the operation of this accused device when the freezing refrigerant passes through the coil attached to the primary plate and also passes through the coils around the freezing compartment?

A. Surely.

Q. O.K. Then under those conditions at that time the freezing refrigerant passing through that freezing coil is about zero degrees Fahrenheit, is it not?

A. It is, yes.

Q. Now, then, it is said, and you agreed, that that portion of the freezing coil attached to the primary transfer plate is a part of the cooling system for the cooling compartment.

A. That's correct.

Q. All right. Now, I am talking about that part. This is what the claim says: 'A cooling refrigerant expander constructed and arranged to maintain its heat-conducting surfaces,' and it has heat-conducting surfaces there (indicating)?

A. Yes.

Q. 'To maintain it at a temperature above 32 degrees Fahrenheit.' Now, that's an impossibility, is it not?

A. *That particular part of the expander does not have those characteristics."*

It is clear from the above that the position which appellant's expert, Mr. Parker, has taken in attempting to apply the claim element in question to the accused refrigerator is unrealistic, forced to an absurdity and stretched far beyond the elastic limit.*

That claim element when properly construed means that the cooling expander or coil 25 is within the cooling compartment or liner 14; that the cooling coil heat-conducting surfaces or fins (not described in the specification and of doubtful showing in the drawings) are located within the cooling compartment or liner; that the cooling compartment 14 means the liner in which the food is stored. The claims are limited to the finned coil type of refrigerator and most certainly cannot be extended to the cold wall type of refrigerator. The two

*As the Court said in the well known case of *White v. Dunbar*, 119 U.S. 47, 51, 30 L. Ed. 303 (1886), a claim is not "like a nose of wax which may be turned and twisted in any direction" so as to make it include more or less than its words express.

types are admittedly different in structure, operation or functioning and results. In the accused refrigerator the appellant insists that the freezing coil attached to the primary transfer plate which is cooled to zero degrees F. is included in the cooling coil, however this is impossible since the patent claim requires maintaining the heat-conducting surfaces of the cooling coil above 32°F.

For the reasons above given, among others, it is clear that the Trial Court had sound and ample reasons of record for holding the claims not infringed.

(B). The Accused Refrigerators Have Two Liquefying Units With Two Separate and Distinct Refrigerants Rather Than a Single Liquefying Unit and Refrigerant as Called for in the Claims.

Each of the four claims of the Bronaugh & Potter patent call for:

“volatile refrigerant in said expanders, a single liquefying unit associated with said expanders . . .”

There is only a “single” volatile refrigerant (Aplt’s Br., 22, third line, first paragraph) in the Bronaugh & Potter system and it is the “same” one which is evaporating in both expanders (freezing and cooling coils) (Aplt’s Br., 26, second line, second paragraph).

As pointed out in the factual statement, page 17 above, the accused refrigerators have two separate and distinct refrigerant circuits, two separate and distinct supplies of refrigerant and two separate and distinct liquefying units. Appellant’s expert agreed that there are two liquefying units. He testified (R. 928):

“Q. So that in the accused refrigerators there is a liquefying unit in the freezing expander circuit,

and there is another liquefier or condenser in the cooling expander circuit?

A. Yes."

In the file history (Def. Ex. 102) Bronaugh & Potter emphasize the meaning of "a single liquefying unit," for on page 57 they say:

"A single condenser condenses refrigerant expanded by heat extracted from the compartments, which heat flows from one compartment to the other and thence to the condenser."

The accused two-circuit system is of the type shown in the Gibson reissue patent No. 21,941 (Def. Ex. 111), and G. A. Gase et al patent No. 1,371,235 issued March 15, 1921 (Def. Ex. 112), as distinguished from the single circuits of Anderson, Davenport and Bronaugh & Potter.

The accused refrigerators similarly have two separate circuits, one a freezing circuit and the other a cooling circuit in which separate and distinct volatile refrigerants flow through said circuits, one refrigerant flowing through the primary freezing coil only for extracting heat from the freezing compartment, and the other refrigerant passing through the cooling coil only for extracting heat from the cooling compartment.

Appellant's engineering witness, Mr. Bommer, a refrigeration engineer and a former chief engineer of one of Potter's companies, testified that a system having a primary freezing circuit and an independent secondary cooling circuit is distinctly different from a system such as disclosed in the patent in suit wherein the freezing pipe and the cooling pipe are in one continuous circuit and in which a single refrigerant flows (R. 640-41).

Accordingly, since the accused refrigerators have two refrigerants and two liquefying units they can not infringe the Bronaugh & Potter claims, which call for a single refrigerant in a single liquefying unit.

In neither their original application nor reissue application did Bronaugh & Potter claim the accused type. Instead, they deliberately claimed the single circuit type shown in their drawings and in Anderson. The accused refrigerators plainly do not respond to the claims and do not infringe. This is the only reasonable conclusion from plaintiff's own evidence.

A judgment n.o.v. was proper here on the ground of non-infringement.

(C). There Is no Identity of Structure, Function and Result.

The accused refrigerators are of the "cold wall" type (Def. Ex., 107; Davenport 1,726,344) in which the refrigerant pipes are on the outside of the compartments and there are two separate and distinct refrigerating circuits for refrigerating the respective compartments as distinguished from the single circuit of the Bronaugh & Potter patent.

In order for there to be infringement there must be, as between the accused structure and the patented one, an identity of structure, function (mode of operation) and result. Of course it is recognized that even if the refrigerators of plaintiff and defendants attain the same result, there is no infringement if defendants attain the results by different means and in a different way. *Electric Ry. v. Hall*, 114 U.S. 87, 29 L. Ed. 96 (1885); *Grant v. Koppl*, 9 Cir., 99 F. 2d 106 (1938); *Brown & Sharpe v. O. S. Walker Co.*, 1 Cir., 167 F. 2d 687 (1948).

(D). The Claims in Suit Are Not Entitled to a Liberal Construction Because the Alleged Invention, if Any, Is Exceedingly Narrow.

At most, Bronaugh & Potter made a narrow, limited, alleged "improvement" in a crowded field. Anderson and Davenport make that clear as do the file wrappers of the prosecution of the Bronaugh & Potter applications (Def. Ex. 101, 102). Accordingly, the claims are to be strictly construed. *Overlin v. Dallas Machines & Locomotive Works*, 9 Cir., 297 Fed. 7, 10, 11 (1924); *Magnavox v. Hart & Reno*, 9 Cir., 73 F. 2d 433 (1934); *Danforth v. Northill Co.*, 9 Cir., 142 F. 2d 51 (1944).

(E). If the Bronaugh & Potter Invention Is for What Appellant Said It Was in the Trial Court There Is no Infringement.

Throughout the trial below appellant's witnesses emphasized the presence and importance of a fin coil rather than a plain pipe or coil in the Bronaugh and Potter cooling compartment, as shown from the following partial record references (R. 277, 278, 280, 282, 312, 326, 327, 328, 331, 430, 508, 509, 515-518, 601, 624, 852, 853). Indeed appellant's expert Parker unequivocally testified that the improvement Bronaugh & Potter made over Anderson was the provision of finned coils (R. 852).

In the light of appellant's own evidence, the expression "a cooling refrigerant expander having heat conducting surfaces within said cooling compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature above 32°F. while withdrawing heat from said compartment" which appears in all of the claims of the patent means a *fin coil* which is

a particular type of coil. It is undenied and undeniable that the accused refrigerators have only *plain pipes or coils*, like those in the Davenport patent (Def. Ex. 107) and therefore there is no infringement.

IV. NEITHER THE POTTER REFRIGERATOR NOR THE POTTER PATENT MADE ANY IMPACT ON THE PUBLIC OR THE REFRIGERATION INDUSTRY.

Appellant's brief (pp. 28-30) attempts to make a showing of commercial success for the refrigerator manufactured by Potter's companies. However, a careful reading of that section of appellant's brief emphasizes that the Potter box was a commercial failure.

Appellant first recites (pp. 28-29) a few historical facts about isolated sales of two Potter refrigerators, one to Barry and one to McChesney; Potter's move to Buffalo in 1932, and his announcement to the trade. None of these facts show any commercial success or public acceptance.

Further, appellant asserts (p. 29) that General Electric and Frigidaire were "sensitive to the Potter accomplishment"; that Kelvinator made "abortive attempts at two climate food storage"; that Bommer came with the Potter company because of "the potential of the invention"; and that authorities wrote "of its promise". These vague recitals do not show commercial success.

Appellant also says that Kobernus, at R. 434, testified that "Hundreds were sold", referring to the Potter box. At R. 433, Kobernus said she did not know how many were sold, but only that she "demonstrated the use of several hundred". This is indeed a weak showing in view of the potential market.

The fact is, as appellant admits, that the Potter Company ended up in "financial disaster" (Aplt's Br. 65).

Appellant seeks to excuse this commercial failure by referring to Quinn's testimony that the "market was not ready" because of the increased cost of a two compartment refrigerator (Aplt's Br., 29-30).

As we have heretofore demonstrated, prior to Potter there was no "problem". "Moist cold" refrigeration, a finned coil, a "nonfrosting" coil, a two compartment refrigerator and all of the other features were old. The reason the refrigerator manufacturers did not adopt the expensive two compartment box was the competition with the low-cost, old icebox (see Quinn, R. 675).

Appellant's showing here is excuse after excuse for Potter's admitted commercial failure and "financial disaster" (Br., 65).

The Potter patent likewise has made no impression on the industry. There is no showing here of recognition of the patent by the industry. There is no evidence of manufacture or licensing under the reissue patent. The history of both the Potter refrigerator and the Potter patent is commercial failure.

Even if there had been commercial success of the patent in suit it could not fill the void of lack of invention. (*Jungersen v. Ostby & Barton Co., et al*, 335 U.S. 560, 93 L. Ed. 235 (1949)).

V. THE TRIAL COURT'S ORDER FOR A NEW TRIAL IS NOT REVIEWABLE. THE DAMAGES AWARDED BY THE JURY HAD NO RATIONAL BASIS.

The Trial Court entered its order for a new trial in the event its judgment for defendant should be reversed

(R. 71). The grounds for the new trial were: (1) the verdict is contrary to the clear weight of the evidence, and (2) the damages awarded plaintiff are excessive (R. 71). The order for a new trial is not reviewable except for abuse of discretion. *Montgomery Ward & Co. v. Duncan*, 311 U.S. 243, 254, 85 L. Ed. 147 (1940); *Cone v. West Va. Pulp & Paper Co.*, 330 U.S. 212, 91 L. Ed. 849 (1947); *Binder v. Commercial Travelers Mutual Acc. Ass'n*, 2 Cir., 165 F. 2d 896, 901 (1947). While under the law the order of the District Court is not reviewable, the District Court was clearly correct in ordering a new trial in the alternative in view of the following facts.

Appellant's evidence of damages consisted of an answer by appellant's expert to a hypothetical question (R. 837-42). Assuming the correctness of the facts stated in the question, appellant's expert stated that in his opinion 10% of the factory price would be a reasonable royalty (R. 842). However, the question postulated that the patent in suit is a pioneer patent, specifically the "first major improvement in refrigeration for many years," and "a brand new idea in refrigeration, not just a new model." (R. 838).

The patents to Anderson, Davenport, Larkin, the testimony of appellant's expert, and the file wrappers of Bronaugh & Potter (Def. Ex. 101, 102) show that this assumed fact is not true.

The question also assumed that "the conventional refrigerators which had been produced in the United States in and prior to 1931 dried out the natural moisture in the foods stored therein because of the frosting of the chilling element within the food chamber, and that said fact had existed from the beginning of electri-

cal refrigeration, during which time a substantial amount of household electric refrigerators were produced in the United States" (R. 839).

However, Bronaugh testified that he and Potter prior to their alleged invention were buying Larkin finned coils from a Georgia factory and installing them in commercial refrigerator compartments to prevent the drying out of foods (R. 165-6). These refrigerators and compartments were conventional.

Since the appellant's hypothetical question was contrary to the established facts, there was no evidence on which the jury could have based its award. The jury's selection of approximately 5% of the factory price was without rational basis. It was clearly no abuse of discretion for the Trial Court to order alternatively a new trial.

VI. APPELLANT'S CLAIM FOR TREBLE DAMAGES AGAINST ADMIRAL IS UNFOUNDED. THE TRIAL COURT'S DENIAL OF THE CLAIM IS REVIEWABLE ONLY FOR ABUSE OF DISCRETION.

Appellant contends (Br. 64-66) that the damages awarded by the jury against Admiral should be trebled by this Court because of the "reckless, knowing and deliberate defiance and appropriation of the invention of the patent in suit" (Br. 66).

It has been shown that there was no "invention," and that Admiral appropriated nothing from Potter.

Appellant's charge of "reckless, knowing and deliberate defiance" is likewise without factual support.

Appellant desperately tries to impose on Admiral what appellant calls the "sordid" story of Stewart-Warner (Br. 65). Admiral bought from Stewart-Warner

certain assets relating to its refrigerator business (Pl. Ex. 4CC7-8), and some employees of Stewart-Warner came to Admiral (R. 959-61). Admiral assumed no liabilities. Stewart-Warner is not on trial here. In its desperation, appellant goes so far as to cite this Court a record reference in the Stewart-Warner case in the Seventh Circuit (Br. 65). Suffice it to say that the Seventh Circuit did not find Stewart-Warner's story "sordid." On the contrary, that Court upheld Stewart-Warner's resistance to Potter's baseless claims (159 F. 2d 972).

After the purchase from Stewart-Warner, Admiral redesigned the two-temperature refrigerator. Morton, chief engineer of Admiral, testified (R. 966):

"Admiral gave me no specific instructions at that time except they wanted to continue the two-temperature, and the problems that arose from Stewart-Warner system at that time were inability to service as an hermetic system and the period that Admiral was to provide that type of service system, which led us into a completely different path."

Admiral adopted the two circuit system here accused (R. 969), which, as has been shown, is not an appropriation of Potter.

The patent in suit was considered by Admiral, and the conclusion reached that it was not infringed (R. 978-9).

Mr. Siragusa, President of Admiral, testified that it was the policy of Admiral, if it felt it was violating a patent, to take a license or redesign its structure (R. 1029).

There was clearly no basis for treble damages here, and the Trial Court's denial of appellant's claim was correct.

In any event, under the Statute (35 U.S.C. 284), the matter is *discretionary* with the Trial Court. There is no showing here of an *abuse* of discretion (*Enterprise Mfg. Co. v. Shakespeare Co.*, 6 Cir., 141 F. 2d 916, 920-1 (1944)).

VII. APPELLANT'S CLAIM FOR COSTS AND ATTORNEYS' FEES BECAUSE OF APPELLEES' ALLEGED "DELAY" AND "BAD FAITH" IS UNFOUNDED.

The lengths to which appellant goes in charging appellees with "bad faith" and "delay" is illustrated by the following from appellant's brief, p. 68:

"They (appellees) also filed the ill-founded, unduly complicated motions for summary judgment which the trial Judge took from June 8, 1951, to March 21, 1953, to decide, almost 2/5th of the life of the reissue patent. This delay has resulted in substantial loss to the plaintiff."

The motion was not found to have been filed for delay or in bad faith by the Trial Court, which *upheld* the motion (Record on prior appeal in this case, No. 13811, p. 52), nor by this Court, which reversed (217 F. 2d 39), nor by the Supreme Court, which denied certiorari, 348 U.S. 952.

Appellant also charges appellees with bad faith because they "filed two vexatious and dilatory suits for declaratory judgment against plaintiff in the Southern District of New York" (Br. 67-8). The record in these New York cases is not a part of the record before this Court. Such an excursion outside the record exhibits only desperation.

The remaining contentions of appellant likewise fail to show "bad faith" or delay. Appellees have defended this case in good faith and with diligence.

The Trial Court did not abuse its discretion in ordering each party to bear its own costs.

CONCLUSION

The Bronaugh & Potter patent is invalid because:

1. Each of the Anderson and Davenport (1,726,344) patents teaches the employment of the same elements as claimed by Bronaugh & Potter in the same organization (a household refrigerator) to produce the same results (a freezing compartment and a moist cold compartment in one box).

2. The Larkin patent teaches the use of a fin coil in a refrigerating compartment to produce a moist cold atmosphere and prevent dehydration of foods stored therein. This same Larkin fin coil was admittedly used by Bronaugh & Potter to produce a moist cold condition in a compartment of their patented refrigerator. Appellant's expert unequivocally stated at the trial that the difference between Bronaugh & Potter and Anderson was in Bronaugh & Potter's placing fins on the bare coils or pipes in the cooling compartment shown by Anderson.

3. Even if patents such as Anderson and Davenport had not shown the organization of elements as claimed by Bronaugh & Potter, the patent would be invalid as claiming an aggregation of old elements which, when brought together, perform no differently from the way they did before and produce no new or surprising result. Admittedly, freezing compartments, moist cold compartments, expansion valves, thermostats, etc., all existed before

Bronaugh & Potter. Their assemblage of these old parts produced exactly what could be expected—a unitary refrigerator having a freezing compartment and a moist cold compartment whose temperatures were controlled to the desired degrees by adjustments of the old adjustable parts.

4. If, as appellant's expert, Mr. Parker, maintained, the use of a finned coil was the invention made by Bronaugh & Potter there is no compliance with 35 U.S.C. 112 since admittedly such a fin coil is not described in the specification of Bronaugh & Potter.

5. The Bronaugh & Potter patent fails to meet the standards of invention of the U. S. Supreme Court and this Court. The patent is for an assembly of old elements as taught by Anderson and Davenport. Even the alleged difference between the Bronaugh & Potter patent and the prior art patents amounts at most to the adjustment of an adjustable valve (expansion valve) to produce less frosting in the cooling coil.

6. There was sale of the patented refrigerators more than two years prior to the assertion in the Patent Office of claimed subject matter and the patent is invalid for late claiming.

The claims of the Bronaugh & Potter patent are not infringed because:

1. The accused refrigerators are of the cold wall type (Davenport 1,726,344) which, according to appellant's witnesses, is different in structure, function and result from the finned coil type which the

Bronaugh & Potter refrigerator is supposed to be.

2. The claims of the patent call for a single liquefying unit and single refrigerant, and the accused refrigerators have two distinct, separate liquefying units containing two refrigerants.

3. There is no identity of structure, function and result between the accused and patented refrigerators.

4. If Bronaugh & Potter made any advance at all, it is a very slight one and the claims should be given no liberal construction such as would include the accused refrigerators which do not have fin coils that are the Bronaugh & Potter advance according to appellant's expert.

The reasons for holding the Bronaugh & Potter patent invalid and not infringed are based exclusively on the uncontradicted testimony of appellant's witnesses and the documentary evidence. As the Trial Judge held, this testimony and evidence unquestionably establishes invalidity and noninfringement of the patent.

The history of the Bronaugh & Potter patent spells out a story of commercial failure. This failure was due to the inherent worthlessness of the patent since the promoters, salesmen and advocates of the patent were obviously very competent men in their fields to be able to do what they did with this patent. Likewise, appellant's brief is an artfully contrived effort to give the impression that Bronaugh & Potter made some patent-worthy contribution to the sum of human knowledge. This is accomplished by disregarding the testimony of appellant's own witnesses and the plain teachings of the

prior art, and relying entirely on invective, bold unsupported statements, and sales talk.

In a desperate attempt to salvage something from the shambles of its ill-begotten patent and ill-founded claims, appellant asks this Court for not only re-instatement of the jury verdict, but treble damages plus costs and attorneys' fees. Such demands are undoubtedly based on the strategy that by asking for everything three times over, appellant hopes to end up with something. There is no more substance in these outrageous demands of appellant than there is in its patent.

There was no abuse of discretion by the Trial Judge in denying appellant's unfounded claims and in ordering a new trial in the alternative should his judgment of invalidity and noninfringement be set aside. Appellant's attack on the Trial Court is wholly unwarranted.

The Judgment of the Trial Court should be affirmed.

Respectfully submitted,

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Service of the within.....
is hereby accepted in..... Oregon, this
..... day of....., 19....., by receiving
three copies thereof.

.....
Attorney... for.....

United States
COURT OF APPEALS
for the Ninth Circuit

MOIST COLD REFRIGERATION CO., INC., a
Corporation,

Appellant,

vs.

LOU JOHNSON CO., INC., a Corporation; MEIER
& FRANK COMPANY, INC., a Corporation; AD-
MIRAL CORPORATION, a Corporation; and
AMANA REFRIGERATION, INC., a Corpora-
tion,

Appellees.

PETITION FOR REHEARING

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PAUL P. O'BRIEN, CLERK

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AMANA REFRIGERATION, INC., a Corpora-
tion,

Appellees.

PETITION FOR REHEARING

COME NOW appellees in the above-entitled cause
and present this, their petition for rehearing and in sup-
port thereof respectfully show:

I.

**THE COURT'S OPINION CONFLICTS WITH OTHER RECENT
OPINIONS OF THIS COURT AND THE SUPREME COURT AND
LEAVES IN A STATE OF CONFUSION THE PROCEDURE TO
BE FOLLOWED BY TRIAL COURTS IN JURY
PATENT INFRINGEMENT CASES**

We had understood it to be well settled in this Cir-
cuit that in the case of mechanical patents claiming a

combination of old elements a rigid standard of invention had to be met and that unless a specific finding was made that the old elements performed an additional and different function in combination than they performed out of it, such a patent was invalid. *Berkeley Pump Co. v. Jacuzzi Bros.*, 9 Cir., 214 F.2d 785; *Kwikset Locks v. Hillgren*, 9 Cir., 210 F.2d 483.

The opinion of the Court recognizes this principle, stating that the Court "must first consider whether the plaintiff in combining these known elements produced a patented device which meets standards laid down for combination patents by the Supreme Court cases." (slip opinion, pp. 10, 11.) Having stated the principle, the opinion moves swiftly to the conclusion that there was substantial proof of invention which presumably passed the rigid standards of the Supreme Court. The opinion, however, is silent as to what this proof was. There is not a word of explanation of how the patent overcame the anticipating effect of the prior art Anderson (Def. Ex. 105), Davenport (Def. Ex. 107) and Larkin (Def. Ex. 106) patents, or how the admittedly old elements of the patent combined to produce an "additional or different function."

Recent decisions by this Court involving jury patent cases are as follows: *Himes v. Chadwick*, 1952, 199 F.2d 100; *Berkeley Pump Co. v. Jacuzzi Bros.*, 1954, 214 F.2d 785; *Hansen v. Safeway Stores*, 1956, 238 F.2d 336; *Stallman v. Casey Bearing Co.*, 1957, 244 F.2d 905. In all these cases, with the exception of the *Hansen* case, the Court affirmed the action of the trial court in hold-

ing the patents in suit invalid on a motion for judgment n.o.v. or directed verdict. In the *Hansen* case, the Court, while reversing a directed verdict for defendant, held that there was a greatly strengthened presumption of validity of the patent because the Court of Customs and Patent Appeals had expressly held the claims of the patent valid over the prior art. The *Hansen* decision in no way affects the correctness of the decision by the trial judge here on the evidence before him.

In the other previously mentioned opinions this Court invariably discussed the prior art and compared it with the patent in order to determine whether patentable invention existed. In the present opinion the Court found only that reasonable minds might differ as to whether there was "a new, useful and unexpected result;" whether the whole did or did not, in some way, exceed the sum of its parts. The resolution of this question depends upon whether a document (patent in suit) is legally sufficient when measured against the standards for combination patents laid down in *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp.*, 340 U. S. 147, 95 L. Ed. 162.

It is submitted that this Court is under a duty, as was the trial judge, to compare specifically the alleged invention with the prior art, and because a combination of old elements was claimed, the Court should find, as a conclusion of law, whether or not it sustains the trial court's opinion as to invalidity. The standards of invention are *legal criteria* laid down by the Supreme Court against which every adjudicated patent must be measured.

The holding of *Great A. & P. Tea Co. v. Supermarket Equipment Corp.*, supra, and followed in *Kwikset Locks v. Hillgren*, supra at p. 486, is that *there must be a specific finding as to just how the old elements combined to produce an additional and different function*. In order to appreciate the full thrust of the Supreme Court's decision in the *A. & P.* case, reference should be made to the opinion of the Sixth Circuit, 179 F.2d 636, 638, in which the court of appeals affirmed the fact finding of the district court which was based on evidence far more substantial than present in our case.

In reversing the trial judge's decision in view of the jury verdict, it is submitted that this Court committed the same basic legal error as did the court of appeals in the *A. & P.* case. As stated in the opinion of the Supreme Court at page 149:

"The Court of Appeals regarded this finding of invention as one of fact, sustained by substantial evidence, and affirmed it as not clearly erroneous. It identified no other new or different element to constitute invention and overcame its doubts by consideration of the need for some such device and evidence of commercial success of this one.

"Since the courts below perceived invention only in an extension of the counter, we must first determine whether they were right in so doing. We think not. In the first place, the extension is not mentioned in the claims, except, perhaps, by a construction too strained to be consistent with the clarity required of claims which define the boundaries of a patent monopoly. (Citing cases.) In the second place, were we to treat the extension as adequately disclosed, it would not amount to an invention."

The above quotation is controlling in our case because this Court regarded the jury verdict of invention

as the resolution of a fact question which was supported by substantial evidence and accordingly reversed the trial judge's contrary decision. However, the opinion in this case, like that of the court of appeals in the *A. & P.* case, failed to identify any new or different element to constitute invention and overcame its doubts by stating (pp. 12, 13) that the proponent of a patent is aided in establishing the invention ("*once the invention has taken place*") by testimony concerning a need for the device, lack of prior discovery, and commercial success. We are not told what factors established the invention in the first place.

In its opinion, this Court agreed with the trial judge that it was essential to the invention that a "fin coil or other extended surface coil" be disclosed in the patent specification (slip opinion, p. 14). The second above-quoted paragraph of the *A. & P.* case is here controlling because fin coil or other extended surface coil "is not mentioned in the claims, except, perhaps by construction too strained to be consistent with the clarity required of claims which define the boundaries of a patent monopoly." Also, if the Court were to treat the use of a fin or other extended surface coil "as adequately disclosed, it would not amount to an invention." Just as in the *A. & P.* case, if the essential element of the Bronaugh & Potter patent is a fin coil or other extended surface it is exactly the same as the Larkin fin coil, or Davenport's cold wall 9 (Def. Ex. 107, Figs. 1 and 2), or a mere elongation or change of dimension of Anderson's cooling coil.

We submit that if the Court had fully appreciated

the admissions of appellant's expert witness, the Court would have agreed with the trial court's decision of invalidity. We say this because in the footnote to page 10 of the opinion, the Court adopted the trial judge's listing of the nine old elements which make up the Bronaugh & Potter patent. These elements, operating in the same manner as claimed by Bronaugh & Potter to produce the same result, are found in the prior art patents to Anderson (Def. Ex. 105) and Davenport, 1,726,344 (Def. Ex. 107), as follows:

BRONAUGH & POTTER	ANDERSON	DAVENPORT
(1) a cabinet,	element 9	element A
(2) a cooling compartment	" 6	" E
(3) a freezing compartment,	" 7	" D
(4) thermal insulation,	" 14	" a
(5) a freezing refrigerant expander,	" 34	" d
(6) a cooling refrigerant expander,	" 40	" 9
(7) a volatile refrigerant,	(p. 1, col. 2, lines 77-81)	(p. 2, lines 28-30)
(8) a single liquefying unit,	element 20	(p. 2, line 34)
(9) a thermostat	(p. 1, col. 2, lines 91-93)	(Not mentioned but in Davenport 1,731,711 thermo- stat mentioned, p. 1, lines 82-90)

Appellant's own expert established that Anderson's cooling coil is "non frosting" in the same sense as Potter. Both frost to a degree depending upon the adjustment of the adjustable expansion valve (see Appellees' Brief, p. 25-29). Davenport is the "cold wall" construction with the cooling coil thermally connected to the com-

partment lining. This is the construction used by defendants.

Appellant's expert so testified (R. 911-912):

"Q. (By Mr. Byron): There are two more Davenport patents shown on this Defendants' Exhibit 114-L. One is a Davenport Patent 1,769,118, and the other is 1,726,344, and in the 1,726,344 there are a series of loops or a coil behind the cold plate of the refrigerator and behind the cover plate of the cooling compartment which constitutes a cold-plate structure; does it not?

A. Yes.

Q. And the cooling coils in that patent, 1,726,344, behind the shell or liner of the cooling compartment are arranged substantially the same as the coils around the cooling compartment in the accused structure; right?

A. It has a different form but similar relationship.

Q. Well, they are cooling coils?

A. That is correct, cooling coils outside of the liner. (932)

Q. Yes, and they are both cold-wall structures?

A. That is right."

Clearly the Potter patent claims, if read on the defendants' refrigerators, are invalid in view of Davenport (see Appellees' Brief, p. 33-38).

Also, in view of the prior Larkin patent (Def. Ex. 106), the only reasonable conclusion that can be reached is that the old elements perform no different function in the Potter accumulation than out of it.

In considering the record here, this Court must have not fully appreciated the force of Anderson, Davenport, and Larkin, and also the admissions of appellant's expert witness.

The above comparison can not be denied and no amount of testimony by plaintiff concerning needs of the housewife, lack of prior discovery, commercial success, etc., can ever make out invention from Bronaugh & Potter's anticipated aggregation of old elements.

The confusion which may well result from the Court's opinion is that while the Court desires to follow and be bound by the Supreme Court's and its own decisions in patent cases, the effect of the decision is directly contrary. The guideposts in patent litigation known as the standards of invention might now be construed as having been removed, and a jury be free to treat as patentable invention whatever concept may impress it without fear of reversal.

The Court's statement that there must be "some evidence before the jury of a substantial nature" does not save the situation because every plaintiff's case has at least as good evidence as appellant's, i.e., expert and other testimony that there was in fact an invention, that the specification and claims were sufficient, and the presumption of validity from issuance of the patent.

II.

THE CLAIMS OF THE BRONAUGH & POTTER PATENT ARE INVALID AS A MATTER OF LAW

In the first full paragraph on page 14 of the slip opinion, this Court apparently agreed with the trial court that the essential element in the Bronaugh & Potter patent was the "fin coil or other extended surface coil." After discussing appellant's arguments attacking the finding of

the trial court on this subject, the Court concluded that appellant tacitly conceded that this essential element was *not shown in the drawings* but appellant still might have a valid patent because there was testimony by its expert that the *specifications* of the patent supported the disclosure of the essential element.

Accepting, for the purpose of rehearing, that the Court is correct in saying that the drawings did not disclose the essential element of the Bronaugh & Potter invention and that the specifications did, the patent is still invalid as a matter of law. That portion of the specifications beginning column 3, lines 44-51, which describes the essential element, was added to the patent application by an amendment filed January 27, 1934 (file wrapper of original patent, Defendants' Exhibit 101, p. 48).*

According to appellant, a refrigerator embodying the invention (Barry box) was first sold about October, 1931 (Appellant's Reply Brief, p. 14). Even if the patentees were allowed to add the essential element of the invention to the specifications by amendment, the claims are invalid since they were not filed within the two-year statutory period relating to public use or sale then in force (old R.S. 4886, now 35 U.S.C.A. §102). This is so even under appellant's interpretation of *Muncie Gear Works v. Outboard Marine & Mfg. Co.*, 315 U. S. 759

*It should be noted that on page 56 of this file wrapper, the patentees represented to the Patent Office that the amendment to the specifications was for the purpose of pointing out the variation of heat insulation between the different compartments and nothing was said about the ratio of the cooling elements, fin coil or extended surface coil.

(Appellant's Reply Brief, p. 13), because there was no disclosure of the essential "fin coil or other extended surface coil" until the amendment to the specifications filed January 27, 1934, which was more than two years after October, 1931.

The patent is also invalid because the "particular kind of heat withdrawing surfaces, or their particular dimensions, were not shown in the drawings." The statute in force at the time that the application for the Bronaugh & Potter patent was filed (R.S. 4889, now 35 U.S.C.A. §113) stated in pertinent part:

"When the nature of the case admits of drawings, the applicant shall furnish one copy signed by the inventor or his attorney in fact. . . ."

Based on the foregoing, old Rule 50 (present Rule 83) of the Rules of Practice in the United States Patent Office provided in pertinent part:

"The drawing must show every feature of the invention covered by the claims . . ."

Under the decision of this Court, the mandatory requirement for a drawing has not been complied with and the patent is invalid.

III.

THE OPINION OF THIS COURT ERRED AS A MATTER OF LAW IN HOLDING THAT WHETHER THE DISCLOSURE AND CLAIMS OF THE PATENT SATISFIED 35 U.S.C.A. 112 WAS A QUESTION OF FACT FOR THE JURY

On page 14 of the slip opinion, it stated:

"Whether or not a disclosure is sufficient is a question of fact. *Schumacher v. Button-Lath Mfg. Co.*,

9 Cir., 292 F. 522, 533, (1920); *Anraku v. General Electric Co.*, 9 Cir., 80 F.2d 958, 963.”

On pages 15 and 16 of the slip opinion, the following appears:

“Again, whether the claims of the patent in suit were sufficiently definite to satisfy the statutory requirement as to particularity is a question of fact,”

The opinion of this Court overlooked the later decision in *General Electric v. Wabash Appliance Corp.* (1938), 304 U.S. 364, where the Supreme Court expressly overruled the *Anraku* case and held the claims of the Pacz patent previously upheld in the Ninth Circuit to be invalid as a matter of law for failure to satisfy the statutory requirements. The Court stated, page 368:

“We need not inquire whether Pacz exhibited invention, or whether his product was anticipated. The claim is invalid on its face. It fails to make a disclosure sufficiently definite to satisfy the requirements of Rev. Stat. §4888, 35 U.S.C.A. §33.” [Now 35 U.S.C.A. § 112.]

The legal nature of this inquiry by a court into the sufficiency of a disclosure and claims is emphasized by the following language of the Supreme Court at page 369:

“Patents, whether basic or for improvements, must comply accurately and precisely with the statutory requirements as to claims of invention or discovery. The limits of a patent must be known for the protection of the patentee, the encouragement of the inventive genius of others and the assurance that the subject of the patent will be dedicated ultimately to the public. The statute seeks to guard

against unreasonable advantages to the patentee and disadvantages to others arising from uncertainty as to their rights. The inventor must 'inform the public during the life of the patent of the limits of the monopoly asserted, so that it may be known which features may be safely used or manufactured without a license and which may not.' "

If we compare Claim 25 of the Pacz patent with Claim 2 of the patent to Bronaugh & Potter, it will readily be seen wherein the Bronaugh & Potter claim is invalid for precisely the same reason as the Pacz claim. In each claim, the indefinite portions have been italicized:

Pacz Claim 25:

"A filament for electric incandescent lamps or other devices, composed substantially of tungsten and made up mainly of a number of comparatively large grains *of such size and contour as to prevent substantial sagging and offsetting during a normal or commercially useful life for such a lamp or other device.*"

Bronaugh & Potter Claim 2:

"A household refrigerator which in normal operation provides above-freezing moist cold air for preserving in a refrigerated condition foods susceptible to moisture loss by evaporation and below-freezing dry cold air and a dry cold surface for preserving foods in a frozen condition, said refrigerator comprising a cabinet having a cooling compartment and a freezing compartment, thermal insulation around said compartments thermally insulating said compartments from each other and from the outside atmosphere, a cooling refrigerant expander having heat-conducting surfaces within said cooling compartment and *constructed and arranged to maintain its heat-conducting surfaces at a tempera-*

ture above 32° F. while withdrawing heat from said compartment, whereby air in said cooling compartment is cooled thereby to a temperature above 32° F. and is maintained at a humidity whose relative value is at least 100% at 32°F., a freezing refrigerant expander having heat-conducting surfaces within said freezing compartment and constructed and arranged to maintain its heat-conducting surfaces at a temperature well below 32°F. while withdrawing heat from said compartment whereby air in said freezing compartment is cooled thereby to a temperature well below 32°F., volatile refrigerant in said expanders, a single liquefying unit associated with said expanders and constructed and arranged to condense refrigerant expanded by heat extracted from both said compartments, the volatile refrigerant circulating through said expanders being the sole heat-extracting medium, and a thermostat responsive to the temperature in one of said compartments controlling the operation of said liquefying unit."

See also *In re Newton*, C.C.P.A., 1940, 110 F.2d 110, and *In re Jennings*, C.C.P.A., 1943, 133 F.2d 906, where the court followed the *General Electric* case and refused to allow claims having to do with subject matter similar to that of *Bronaugh & Potter* which was claimed in the same functional way as in the *Bronaugh & Potter* patent.

The trial judge in our case correctly decided that as a matter of law there had been a failure to disclose the essential "fin coil or other extended surface coil" in the specifications and there was no jury question involved.

Likewise, the question of whether the claims of the *Bronaugh & Potter* patent satisfied the statutory requirement of definiteness was purely a legal one which

had been correctly decided by the trial judge. Expert or other testimony on the sufficiency of the disclosure and definiteness of the claims could not transform this legal question into a factual one.

IV.

THE COURT INCORRECTLY HELD THAT THERE WAS SOME EVIDENCE OF INFRINGEMENT

Assuming, as this Court did, that the jury could reasonably find infringement because a cold wall refrigerator (accused device) was the equivalent of an extended surface-coil fin, then Davenport 1,726,344 completely anticipates this essential element and all the claims of the patent in suit are invalid.

On page 17 of the slip opinion, the Court held that the trial judge was incorrect in holding as a matter of law that the accused device had two liquefying units and the patent one because there was "some substantial evidence in the record" to support the jury verdict of infringement. The opinion does not tell us what this evidence was—clearly it was not the testimony of Mr. Morton mentioned in the opinion, which testimony was that the accused device contained two liquefying units. Mr. Parker, appellant's expert, agreed with Mr. Morton that the accused device had two liquefying units (R. 928). The foregoing was also confirmed by the testimony of appellees' expert, Mr. Muffly (R. 1314, 1315).

Even if the experts had not agreed that the accused device had two liquefying units, the jury finding to the contrary could not have stood because an inspection of

the accused device, as shown in Defendants' Exhibit 114-A, Plaintiff's Exhibit 8A (Plates IV, V, Appendix to Appellees' Brief) and (Admiral Manual, p. 3, Pltf's. Ex. 4-CC2) clearly show one liquefying unit labeled E in the primary circuit and another liquefying unit G in the secondary circuit.

This Court erred in holding that there was substantial evidence as to infringement because each of the claims in the patent called for "a single liquefying unit" and "the volatile refrigerant circulating through said expanders being the sole heat-extracting medium." The accused device has two liquefying units operating in two separate refrigerating circuits with two separate volatile refrigerants.

CONCLUSION

In order to resolve the confusion and uncertainty which exists as a result of this Court's conflicting decisions relating to the manner in which the question of validity and infringement should be treated in patent cases, a rehearing should be granted.

If the present decision of the Court is allowed to stand, it is doubtful that a trial judge in this Circuit in a jury patent case will ever exercise his "right and duty" with respect to the relevant legal criteria and defendants may be at the mercy of the whims and impressions of a jury as to what constitutes invention and infringement. Legal principles developed over the years by the courts concerning invention and infringement may be cast

aside. As trenchantly put by Judge Hastie in the oft-cited case of *Packwood v. Briggs & Stratton Corp. et al*, 3 Cir., 1952, 195 F.2d 971, 973:

"A jury in a patent case is not free to treat invention as a concept broad enough to include whatever discovery or novelty may impress the jurors favorably. Over the years the courts of the United States, and particularly the Supreme Court, have found meaning implicit in the scheme and purpose of the patent laws which aids in the construction of their general language. In this process, rules and standards have been developed for use as guides to the systematic and orderly definition and application of such a conception as invention in accordance with what the courts understand to be the true meaning of the Constitution and the patent laws. Once such standards and rules are authoritatively announced any finding of 'invention' whether by a court or a jury must be consistent with them."

It is submitted that this petition for rehearing should be granted, and the judgment of the District Court affirmed.

Respectfully submitted,

RAMSEY & KOLISCH,

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Petitioners.

Of Counsel:

FRANCIS H. URIELL,

CHARLES L. BYRON,

WILLIAM E. LUCAS.

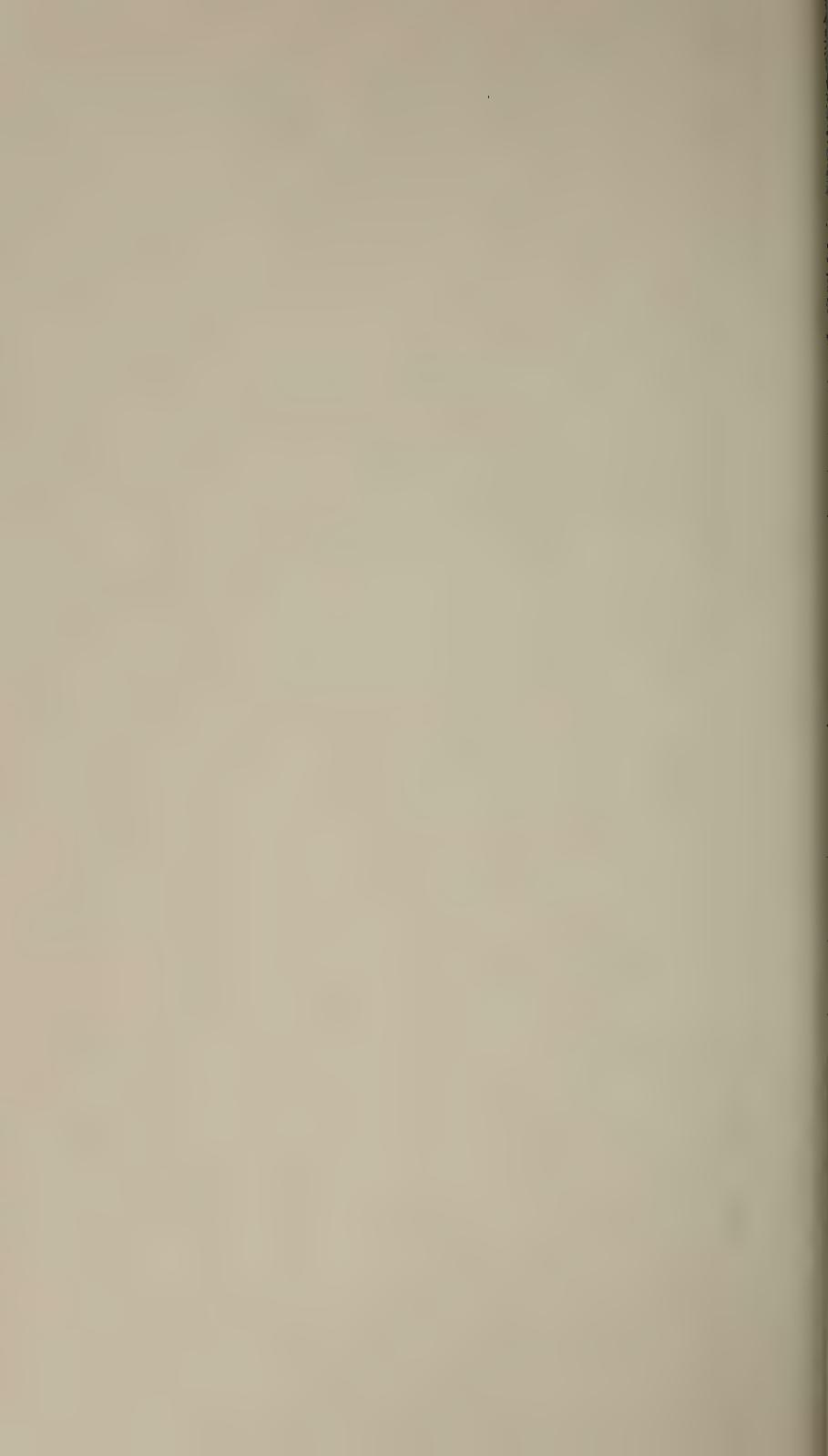
CERTIFICATE OF COUNSEL

IT IS HEREBY CERTIFIED that in the judgment of the undersigned, the foregoing petition is well-founded, and is not interposed for delay.

Dated at Portland, Oregon, November 7, 1957.

W. E. RAMSEY,

Of Attorneys for Appellees
and Petitioners.



No. 15096

United States
Court of Appeals
for the Ninth Circuit

COMMISSIONER OF INTERNAL REVENUE,
Petitioner,

vs.

THE STONECREST CORPORATION and THE
BROOKFIELD CORPORATION,
Respondents.

Transcript of Record

Petitions to Review Decisions of The Tax Court
of the United States

FILED

SEP 13 1957

PAUL F. BROWN, CLERK

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[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in *italic*; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in *italic* the two words between which the omission seems to occur.]

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APPEARANCES

For Petitioner:

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SCOTT H. DUNHAM.

For Respondent:

T. M. MATHER.

Tax Court of the United States

Docket No. 42445

THE STONECREST CORPORATION,
Petitioner,
vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

DOCKET ENTRIES

1952

- Jul. 3—Petition received and filed. Taxpayer notified. Fee paid.
- Jul. 9—Copy of petition served on General Counsel.
- Jul. 3—Request for Circuit hearing in San Francisco filed by taxpayer. 7/22/52, granted.
- Aug. 19—Answer filed by General Counsel.
- Aug. 26—Copy of answer served on taxpayer, San Francisco.

1953

Jul. 31—Hearing set Nov. 2, 1953, San Francisco.

Sep. 21—Motion to consolidate docket numbers 42445 and 42446 and continue to next calendar filed by taxpayer. 9/21/53, granted.

Dec. 22—Hearing set March 15, 1954, San Francisco.

1954

Feb. 2—Motion to amend answer, amendment to answer lodged, filed by General Counsel. 2/3/54, granted, 2/3/54, served.

Feb. 12—Motion to continue to the next calendar in San Francisco filed by petitioner. Granted.

Jul. 13—Hearing set Nov. 1, 1954, San Francisco.

Nov. 4—Hearing had before Judge Tietjens on the merits. Stipulation of facts with exhibits 1-A thru 9-D, attached, filed at hearing. (See Transcript) Briefs due 60 days; replies due 30 days.

Nov. 23—Transcript of Hearing 11/4/54 filed.

Dec. 14—Motion for extension of 60 days from Jan. 3, 1955 to file brief filed by taxpayer. 12/15/54, granted.

1955

Feb. 28—Brief filed by taxpayer. 3/7/55, copy served.

Mar. 4—Brief filed by General Counsel.

Mar. 15—Motion for extension of 30 days from Apr. 3, 1955 to file reply brief filed by taxpayer. Granted 3/16/55.

1955

Apr. 28—Petitioner's reply brief filed. 4/29/55,
copy served.

May 3—Reply brief filed by General Counsel.
Copy served.

Jul. 14—Findings of fact and opinion filed.
J. Tietjens, Decision will be entered under
Rule 50. Copy served.

Oct. 11—Agreed computation filed.

Oct. 13—Decision entered, Judge Tietjens, Div. 1.

1956

Jan. 12—Petition for review by U. S. Court of Ap-
peals, Ninth Circuit, filed by respondent.

Jan. 20—Proof of service filed. (Counsel)

Jan. 20—Proof of service of petition for review
filed. (Petitioner)

Feb. 8—Motion for extension of time to April 11,
1956 for filing the record and docketing
the appeal filed by respondent.

Feb. 10—Order extending time to April 11, 1956 for
filing the record and docketing the appeal,
entered.

Mar. 15—Statement re diminution of record with
statement of service by mail thereon filed.

Mar. 15—Statement of Points with statement of
service by mail thereon filed.

Tax Court of the United States

Docket No. 42446

THE BROOKFIELD CORPORATION,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

DOCKET ENTRIES

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Jul. 3—Petition received and filed. Taxpayer notified. Fee paid.

Jul. 9—Copy of petition served on General Counsel.

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Nov. 4—Hearing had before Judge Tietjens on the merits. Stipulation of facts with exhibits 1-A thru 9-D, attached, filed. (See Transcript) Briefs due 60 days; replies due 30 days. [Motion for leave to file amendment to petition granted. Motion and amendment to petition filed.]

Nov. 15—Answer to amendment to petition filed by General Counsel.

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Apr. 11—Supplemental Stipulation of Facts filed.

Apr. 28—Petitioner's reply brief filed. 4/29/55, copy served.

May 3—Respondent's reply brief filed. Copy served.

1955

Jul. 14—Findings of fact and opinion filed.
Tietjens J. Decision will be entered under
Rule 50. Copy served.

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1956

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Jan. 20—Proof of service of petition for review filed. (Petitioner)

Jan. 20—Proof of service of petition for review filed. (Counsel)

Feb. 8—Motion for extension of time to April 11, 1956 for filing the record and docketing the appeal filed by respondent.

Feb. 10—Order extending time to April 11, 1956 for filing the record and docketing the appeal, entered.

Mar. 15—Statement of points with statement of service by mail thereon filed by respondent.

Mar. 15—Statement re diminution of record with statement of service by mail thereon filed by respondent.

[Title of Tax Court and Cause No. 42445.]

PETITION

The above named petitioner hereby petitions for a redetermination of the deficiencies set forth by the Commissioner of Internal Revenue in his notice of deficiency issued by the Office of the Internal

Revenue Agent in Charge, San Francisco Division (Symbols: IRA:90-D:CRA (C:AS:PD:SF:HGP)), dated April 9, 1952, and as a basis of its proceeding alleges as follows:

1. The petitioner is a corporation with its principal office at 3455 Nineteenth Avenue, San Francisco, California. The returns for the periods here involved were filed with the Collector for the First District of California.

2. The notice of deficiency (a copy of which is attached and marked Exhibit "A") was mailed to the petitioner on April 9, 1952.

3. The deficiencies (overassessments) as determined by the Commissioner are deficiencies and overassessments in income tax, declared value excess profits tax and excess profits tax for the taxable years ended December 31, 1942, December 31, 1943, December 31, 1944, and December 31, 1945, as follows:

Taxable Year Ended December 31	Total	Income Tax	Declared Value Excess Profits Tax	Excess Profits Tax
1942,	\$191,803.90	\$ 3,766.08	\$29,678.26	\$158,359.56
1943,	41,792.35	(4,422.44)	3,883.19	42,331.60
1944,	(958.02)	(958.02)		
1945,	20,707.04	12,176.55	414.62	8,115.87
Total,	\$253,345.27	\$10,562.17	\$33,976.07	\$208,807.03

The amounts of such taxes in controversy are deficiencies (overassessments) in income taxes, de-

clared value excess profits taxes and excess profits taxes for such years as follows:

Taxable Year Ended		Income Tax	Declared Value Excess Profits Tax	Excess Profits Tax
December 31	Total			
1942,	\$191,803.90	\$ 3,766.08	\$29,678.26	\$158,359.56
1943,	41,792.35	(4,422.44)	3,883.19	42,331.60
1944,	(958.02)	(958.02)		
1945,	20,579.83	12,049.34	414.62	8,115.87
Total,		\$10,434.96	\$33,976.07	\$208,807.03

In addition, this petitioner claims an overassessment of excess profits tax for the year 1943 in the amount of \$862.38, which after being offset by a deficiency in income tax for such year in the amount of \$193.24, should be refunded to this taxpayer, together with interest thereon.

4. The determination of the taxes set forth in said notice of deficiency is based upon the following errors:

a. The Commissioner erred in determining that for the purpose of the contract price under Section 44 of the Internal Revenue Code, the sales prices of single family residences sold by this petitioner during the years 1942, 1943, 1944 and 1945 should be reduced by the outstanding mortgages thereon to the extent such mortgages did not exceed the basis of such residences to this petitioner.

b. The Commissioner erred in determining that a portion only instead of all of the installment payments actually received by this petitioner during

the years 1942, 1943, 1944 and 1945 should be considered in determining the profits which this petitioner realized during such years from the installment sales of single family residences during the years 1942, 1943, 1944 and 1945.

c. The Commissioner erred in determining that 100% of that portion of the installment payments actually received by this petitioner during the years 1942, 1943, 1944 and 1945 from its sales during 1942, 1943 and 1944, and that 83.5455% of that portion of installment payments actually received by this petitioner during 1945 from its sales during such year (which portions he considered as collections instead of the total installment payments actually received) on such sales constituted profit to it.

d. The Commissioner erred in determining that the gross profit to be realized when payments are completed should be returned as income over a period of less than three years rather than over the entire period in which installment payments are actually received by this petitioner from the purchasers of the residences.

e. The Commissioner erred in determining that the excess of the mortgages outstanding against the homes sold over the basis of the homes to the petitioner constituted a part of the initial payments received by this petitioner.

f. The Commissioner erred in determining that this petitioner realized profit in the year 1942 on such installment sales in the amount of \$264,546.49.

g. The Commissioner erred in not allowing this petitioner the net operating loss carry-over from the year 1942 in the amount of \$3,898.95.

h. The Commissioner erred in determining that this petitioner realized profit in the year 1943 on such installment sales in the amount of \$114,426.17.

i. The Commissioner erred in determining that salaries paid to officers of this petitioner during the year 1944 in the amount of \$15,600.00, were not deductible in determining its net income for such year.

j. The Commissioner erred in determining that the petitioner realized profit in the year 1944 on such installment sales in the amount of \$53,210.20.

k. The Commissioner erred in determining that salaries paid to the officers of this petitioner during the year 1945 in the amount of \$15,600.00, were not deductible in determining its net income for such year.

l. The Commissioner erred in determining that this petitioner realized profits in the year 1945 on such installment sales in the amount of \$85,902.04.

m. The Commissioner erred in not allowing additional deductions for California bank and franchise taxes during the years 1942, 1943, 1944 and 1945, which additional taxes would necessarily arise if the determinations of the Commissioner relating to adjustments to this petitioner's income for such period were correct.

5. The facts upon which this petitioner relies as a basis for this proceeding are as follows:

a. This petitioner was incorporated under the

laws of the State of California on December 26, 1941.

b. This petitioner constructed and sold over 400 single family residences during the years 1942, 1943, 1944 and 1945.

c. Sales of such residences during the years 1942, 1943, 1944 and 1945 amounted to \$1,593,426.25, \$452,450.00, \$47,250.00 and \$591,500.00, respectively. The costs of such residences to this petitioner were in the respective amounts of \$1,250,977.16, \$347,663.12, \$35,629.11 and \$507,871.00, and the gross profits to be realized from such sales when payments therefor were completed were in the respective amounts of \$342,449.09, \$104,786.88, \$11,620.89 and \$83,629.00.

d. Initial payments received in connection with such sales were less than 30% of the sales price thereof.

e. This petitioner was entitled to elect to report the profits from such sales on installment payments under Section 44 of the Internal Revenue Code, and this petitioner did so elect.

f. The sales contract in the case of each sale set forth the full sales price of the residence. The difference between the sales price and the cash down payment constituted the amount of the unpaid balance to the petitioner from the buyer. Such balance was to be paid to the petitioner in monthly installments over a period of twenty-five years, together with interest thereon, and payments to meet taxes and insurance on the property.

g. Each contract recited that a loan was outstanding against the residence at the time of sale, which loan the petitioner as seller agreed to pay.

h. Such loans had been previously made by the San Francisco Bank, San Francisco, California, to the petitioner and were Federal Housing Administration construction loans.

i. The petitioner was directly and primarily liable for the payment of such loans and has remained directly and primarily liable thereon for the unpaid balance thereof up to and including the present time.

j. The petitioner alone was required to make all payments to the bank on such loans and, in fact, it alone has made all such payments directly to the bank with its own funds whether or not it received payments from its purchasers on their obligations to it.

k. None of the purchasers of the residences has, in fact, ever assumed or paid any of such outstanding loans.

l. All payments by the purchasers are required by the agreement of sale to be made and have been made directly to and actually received by this petitioner.

m. Under the contract under which each residence was sold, the purchaser was entitled to a deed free and clear of the bank loan when he had paid the full sales price set forth in the contract.

n. The purchaser did not take the residence subject to the outstanding loan thereon.

o. Under section 44 of the Internal Revenue Code, the formula for determining the percentage of profit realized by a seller on each installment payment received is as follows:

$$\frac{\text{Profit to be realized}}{\text{Contract price}} = \frac{\text{Percent of each installment payment actually received which constitutes profit.}}{}$$

p. Since each residence was neither sold subject to the outstanding loan nor was such loan assumed by the purchaser, Regulations 111, Section 29.44-2 (and the identical provisions of the preceding Regulation) is not applicable in determining the profit realized by this petitioner upon such sales insofar as it provides that the amount of the mortgage to the extent it does not exceed the basis of the property to the seller is not a part of the "contract price", and to the extent that it implies that the amount of the loan in excess of the basis to the seller is a part of the "initial payment" received by the seller.

q. In the case at issue, even if the purchaser took the property subject to the loan, such provisions of Regulations 111, Section 29.44-2, are not applicable to the particular facts here involved since their application would operate to create a rule out of harmony with and in contravention of the provisions of Section 44 of the Internal Revenue Code and of the court decisions interpreting such provisions.

r. If the Commissioner is correct in determining

that the above provisions of Regulations 111, Section 29.44-2, apply to the facts of the instant case, then to that extent such Regulation is a nullity since it operates to create a rule out of harmony with the Internal Revenue Code, neither reasonable nor consistent therewith.

s. As applied to the principal case, the "contract price" for the purpose of determining the amount of profit realized by the petitioner from each installment payment received by a purchaser of a residence is the selling price thereof set forth in the agreement of sale.

t. The total amount of each payment received by the petitioner from each purchaser which is applicable to the principal amount of the unpaid balance of the selling price constitutes the installment payment actually received for the purpose of determining the amount of the profit realized by the petitioner.

u. Under Section 44 of the Internal Revenue Code, this petitioner is entitled and required to return the gross profit to be realized as income over the entire period in which installment payments are actually received by this petitioner from the purchasers of the residences.

v. During the years 1942, 1943, 1944 and 1945, the petitioner properly reported its profits from the sales of the residences made during the years 1942, 1943, 1944 and 1945.

w. The profit realized by the petitioner during the calendar year 1942 from such sales was in the

amount of \$28,312.43; such profit for the calendar year 1943 was in the amount of \$75,050.55; such profit for the calendar year 1944 was in the amount of \$70,692.78; and such profit for the calendar year 1945 was in the amount of \$67,921.97.

x. This petitioner was entitled to a net operating loss carry-over from the year 1942 in the amount of \$3,898.95.

y. During each of the years 1944 and 1945, this petitioner properly paid salaries to its officers in the amount of \$24,000.00, or \$12,000.00 each to Ellis L. Stoneson and Henry Stoneson.

z. In view of the fact that such officers were entirely responsible for the operations and success of this petitioner, such salaries were reasonable in all respects and are deductible in computing the net income of this taxpayer in both the calendar year 1944 and the calendar year 1945.

aa. In the event any adjustments to this petitioner's income for 1942, 1943, 1944 and 1945, determined by the Commissioner are sustained, such adjustments would result in additional California bank and franchise taxes.

bb. Such additional California bank and franchise taxes accrue as of the first day of the taxable year for which they are imposed.

cc. This petitioner being on the accrual method of reporting income and expenses, except as to the installment sales of residences, is entitled to deduct

any additional California bank and franchise taxes in the year in which such taxes accrue.

Wherefore, the petitioner prays that this court may hear the proceeding and

(1) Determine that there are no deficiencies in income tax, declared value excess profits tax or excess profits tax for the calendar year 1942; that there is a deficiency in income tax for the calendar year 1943 in the amount of \$193.22; that there are no deficiencies in declared value excess profits tax or excess profits tax for such year; that there is a deficiency in income tax for the calendar year 1944 in the amount of \$39.65; that there are no deficiencies in declared value excess profits tax or excess profits tax for such year; and that there is a deficiency in income tax for the year 1945 in the amount of \$127.21; and that there is no deficiency in declared value excess profits tax and excess profits tax.

(2) Determine that there is an overassessment of excess profits tax for the calendar year 1943 in the amount of \$862.38 which should be refunded to this taxpayer, together with interest thereon.

(3) Determine that this petitioner is entitled to deduct in the years in which such taxes accrue any additional California bank and franchise taxes arising from adjustments in this taxpayer's income determined by the Commissioner and sustained by this Court.

(4) Grant such other and further relief as, in

the opinion of the Court, the facts of the case may warrant.

Respectfully submitted,

/s/ BERT F. RABINOWITZ,
Counsel for Petitioner.

/s/ SCOTT H. DUNHAM,
Certified Public Accountant,
Of Counsel.

Duly Verified.

[Endorsed]: T.C.U.S. Filed July 3, 1952.

[Title of Tax Court and Cause No. 42,445.]

ANSWER

Comes now the Commissioner of Internal Revenue, respondent above named, by his attorney, Charles W. Davis, Chief Counsel, Bureau of Internal Revenue, and for answer to the petition filed by the above-named petitioner admits, denies and alleges as follows:

1 and 2. Admits the allegations contained in paragraphs 1 and 2 of the petition.

3. Admits the deficiencies as determined by the Commissioner are as set forth in paragraph 3 of the petition, but denies the remaining allegations and alleges that the Tax Court has no jurisdiction over overassessments.

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4 and 4-a to m, inclusive. Denies that the Commissioner erred in the determination of the deficiencies as alleged in paragraph 4 of the petition and subparagraphs a to m, inclusive, thereunder.

5-a to c, inclusive. Admits the allegations contained in subparagraphs a to c, inclusive, of paragraph 5 of the petition.

5d to g, inclusive. Denies the allegations contained in subparagraphs d to g, inclusive, of paragraph 5 of the petition.

h to m, inclusive. For lack of knowledge or information sufficient to form a belief, denies the allegations contained in subparagraphs h to m, inclusive, of paragraph 5 of the petition.

n to z, inclusive. Denies the allegations contained in subparagraphs n to z, inclusive, of paragraph 5 of the petition.

aa. For lack of knowledge or information sufficient to form a belief, denies the allegations contained in subparagraph aa of paragraph 5 of the petition.

bb and cc. Denies the allegations contained in subparagraphs bb and cc of paragraph 5 of the petition.

6. Denies generally and specifically each and every allegation in the petition not hereinbefore admitted, qualified or denied.

Wherefore, it is prayed that the Commissioner's

determination be approved and the petitioner's appeal denied.

/s/ CHARLES W. DAVIS,

Chief Counsel, Bureau of Internal
Revenue.

Of Counsel:

B. H. Neblett, District Counsel; T. M. Mather, Special Attorney, Bureau of Internal Revenue.

[Endorsed]: T.C.U.S. Filed Aug. 19, 1952.

[Title of Tax Court and Cause No. 42,445.]

STIPULATION OF FACTS

It is hereby stipulated and agreed between the Commissioner of Internal Revenue and the above entitled taxpayer, by their respective undersigned attorneys, that the following facts shall be taken as true, provided, however, that this stipulation does not waive the right of either party to introduce other evidence not at variance with the facts herein stipulated, or to object to the introduction in evidence of any such facts on the grounds of immateriality or irrelevancy.

1. Petitioner is a California corporation, organized January 5, 1942, with its principal office at 3150 - 20th Avenue, San Francisco, California. At the date of filing its petition with The United States Tax Court, its office was at 3455 - 19th Avenue, San Francisco, California. It filed its income and excess profits tax returns for the calendar years 1942, 1943,

1944, and 1945, with the Collector of Internal Revenue in San Francisco, California. It kept its books with respect to sales of real estate on the installment method of accounting and it elected to report, and reported, and was entitled to report profits on sales of real estate on the installment method of accounting for each of the above years and for subsequent years.

2. Petitioner's principal operations for the years 1942, 1943, 1944, and 1945 consisted primarily in the construction and sale of individual residences. A few of the individual residences were sold for cash. Most of the individual residences were sold on the installment plan. The following summary reflects sales of individual residences on the installment plan and as completed sales not on the installment plan during each of the years 1942 to 1945, inclusive:

Year	Number of Houses	Number of Houses Sold on the Installment Plan	Number of Houses on which Entire Profit was Realized During the Year of Sale
1942,	356	349	7
1943,	88	88	
1944,	9	9	
1945,	91	91	
Total,	544	537	7

Residences sold on the installment plan were sold under a contract and purchasers were required to make small down payments and the balance of the purchase price was payable in monthly installments over a period of either twenty years or twenty-five years. During the year 1942, 347 residences which

were sold on the installment plan gave the purchasers twenty years in which to pay the balance due on the purchase price in monthly installments. The remaining two residences sold on the installment plan during the year 1942 and all residences sold on the installment plan during the years 1943, 1944, and 1945 gave the purchasers a period of twenty-five years in which to pay the purchase price in monthly installments. The level of payments which the purchaser was required to make during the first twenty-seven months was in all instances greater than the level of payments which the purchaser was required to make during the balance of the period. The exact language of the agreement pertaining to monthly payments is as follows:

“The purchase price for said property which purchaser agrees to pay and seller agrees to accept therefor is the sum of \$. payable as follows: \$. cash, receipt of which is hereby acknowledged; \$. per month payable on the day of each and every month thereafter for a period of 27 months, (first period), and thereafter \$. per month payable on same day of each month until purchase price and interest are paid in full (second period).”

Petitioner's activities during the years 1942 and 1943 were confined primarily to the development of the subdivision known as Stonecrest. During the years 1943 and 1945, it acquired additional lands and developed subdivisions known as Westview Terrace and Edgewood Terrace. The development of all of these subdivisions consisted of the acquisition of

land, planning and subdividing the land, making necessary improvements, constructing individual residences on the improved lots and selling the individual residences.

4. Petitioner's acquisition of land and method of operation during the years 1942 to 1945, both inclusive, were as follows:

Petitioner purchased land from the partnership, Stoneson Bros., a co-partnership consisting of Henry S. Stoneson and Ellis L. Stoneson. The partnership had previously purchased an unimproved tract of property; the purchase price being financed partially by funds of the partnership but principally by a blanket deed of trust covering the entire tract in favor of the San Francisco Bank, securing a promissory note executed by each of the partners and their respective wives. Copies of the promissory note and the deed of trust pertaining to the subdivision Stonecrest are attached hereto and designated Exhibits 1-A and 1-B, respectively. The blanket deed of trust covered the cost of land not paid for with partnership funds and the estimated cost of basic improvements consisting of streets, curbs, sidewalks, sewers, fire hydrants, and gas and electricity connections servicing the entire property. Purchases of tracts of land which were developed into the subdivisions known as Westview Terrace and Edgewood Terrace were handled in the same manner as the purchase of land developed into the subdivision known as Stonecrest.

After the petitioner had made arrangements to acquire land previously purchased by the partner-

ship, Stoneson Bros., a subdivision map was prepared by the petitioner and immediately preceding its approval and recordation, title to the property was then transferred from the partnership to the petitioner by deed.

The procedure followed in the financing and sale of individual residences sold on the installment plan during each of the years 1942, 1943, 1944 and 1945 was as follows:

Through the San Francisco Bank and/or directly with the Federal Housing Administration, the petitioner then submitted for its information and approval and commitment for insurance the following documents: Master plan of house; subdivision information (F.H.A. Form No. 2084), Exhibit 3(b) hereof; description of materials (F.H.A. Form No. 2005), Exhibit 3(c) hereof; and Declaration of Restrictions, Exhibit 3(d) hereof.

After the foregoing met with the general approval of the Federal Housing Administration, it so advised the petitioner, as per Exhibit 3(e) hereof. Thereupon the petitioner, through The San Francisco Bank, applied for a specific construction loan (F.H.A. Form No. 2004 and 2004A), Exhibit 3(f) hereof, and upon securing F.H.A. commitment covering that specific loan (F.H.A. Form No. 2007), Exhibit 4(a) hereof, the bank granted the individual construction loan on each individual lot, in connection with which the petitioner executed a deed of trust note, Exhibit 5(a) hereof, and a deed of trust, Exhibit 5(b) hereof, which was then recorded by the bank. The original blanket deed of trust remains

outstanding on the rest of the tract but it was released as to the individual lot on which the specific loan was made, upon the payment out of the construction loan on account of the blanket loan of an agreed release price. The provisions relating to the release of lots are covered by a general agreement between the taxpayer and the bank, Exhibit 5 (c) hereof.

The petitioner then proceeded to the construction and completion of the house on the individual lot, inspection being made jointly by representatives of the bank and the petitioner for the purpose of securing progress payments on the construction loan.

Thereupon the petitioner proceeded to sell the individual houses, in all cases using a licensed real estate broker. When a sale was agreed upon, the purchaser signed a document entitled "California Real Estate Association Standard Form Deposit Receipt," Exhibit 6(a) hereof, furnished a Federal Housing Administration certificate of employment, Exhibit 6(b) hereof, and Mortgagee's Application for Mortgage Insurance (F.H.A. Form 2004 and 2004A) Exhibit 6(c) hereof.

Thereupon the Mortgagee's Application for Mortgage Insurance, Exhibit 6(c) hereof, and two certified copies of the Deposit Receipt, Exhibit 6(a) hereof, were transmitted to The San Francisco Bank, which submitted them, together with Federal Housing Administration Consent to Substitution of Mortgagors (F.H.A. Form No. 2210A) Exhibit 6(d) hereof, to the Federal Housing Administration.

If satisfactory to the F.H.A., it then executed

that portion of its Form 2210A, Exhibit 6(d) hereof, marked "(B) Preliminary Approval" and returned the same to the bank, which in turn transmitted it to the petitioner.

When the house was fully constructed and ready for occupancy, a Uniform Agreement of Sale, Exhibit 7(a) hereof, was executed by the purchaser and petitioner, and the purchaser also executed that portion of Exhibit 6(d) designated "(C) Purchaser's Certificate," a guarantee addressed to the bank, Exhibit 7(b) hereof, and a Quitclaim Deed, Exhibit 7(c) hereof.

The purchaser received only the following: A duplicate of the Uniform Agreement of Sale, Exhibit 7(a) hereof, a Monthly Payment Book, Exhibit 7(d) hereof, and a letter of transmittal, Exhibit 7(e) hereof.

All Uniform Agreements of Sale were originally identical with Exhibit 7(a) hereof. Subsequently, however, upon assignments of these contracts by the original purchasers the assigned contracts were changed to the forms attached hereto designated Exhibits 7(a-1) and 7(a-2), and all contracts in the year 1945 were in the form set forth in Exhibit 7(a-3).

Neither the bank nor the F.H.A. retained any executed copy of the Guarantee, Exhibit 7(b) hereof, nor of F.H.A. Form No. 2210A, when executed by the purchaser, Exhibit 6(d) hereof.

In no single case under Uniform Agreement of Sale, Exhibit 7(a), did the petitioner exercise its

option to deed the property to the purchaser. In no single case under any Agreement of Sale has the purchaser exercised an option to receive a deed prior to the payment in full of the total purchase price.

All monthly payments on contracts were made direct to the petitioner by the purchaser and all monthly payments due on loans were made direct by the petitioner to the bank, until the property was deeded to the purchaser, at which time the purchaser's contract account was closed and the unrealized profit applicable thereto was reported as income for that year.

Petitioner maintained records showing the sales price of each individual residence which it had sold, the down payment, the balance due from the purchaser (this being the sales price minus the down payment), the monthly payments due, the monthly payments received on each contract covering the principal, interest and trust funds (taxes and insurance), and the balance due from the purchaser after each monthly payment was received from the date each residence was sold on the installment plan to the date the installment contract was closed. The individual accounts covering amounts due from purchasers were never credited with any item other than cash payments from the date residences were sold on the installment plan to the date the installment contract was closed.

Petitioner's books and records maintained accounts reflecting the amount due The San Francisco

Bank on each loan which the bank made from the date the loan was made by the bank to the date the installment contract was closed and a deed was issued by petitioner conveying to the purchaser the residence covered by the deed of trust. The petitioner's procedure in handling bank loans was as follows:

The petitioner maintained individual accounts reflecting the balance due The San Francisco Bank on each loan. The accounts reflected the number of each loan, the amount of each loan, the monthly principal payments made on the loan, and the balance due the bank on each loan from the date the loan was granted to the date the installment contract was closed which covered the residence on which petitioner had executed a deed of trust as security for the loan. Petitioner received monthly statements from the bank showing monthly payments due on all outstanding loans, Exhibit 8(a). It checked the bank's monthly statements and summarized the amount due the Bank, Exhibit 8(b), and it then issued its check, Exhibit 8(c), in payment of the aggregate monthly payments due the bank on all outstanding loans. Exhibits 8(a), 8(b) and 8(c) cover loan transactions for the month of November, 1944 and they are typical of the manner in which loan transactions were handled in other months.

The San Francisco Bank carried all loans on its books and records as loans due from the petitioner from the date each individual loan was granted until the installment contract was closed pertaining to

the residence on which petitioner had executed a deed of trust as security for the loan. The bank grouped the loans into controls and each control accounted for loans which had exactly the same maturity date and the same payments due each month covering principal, interest, and trust funds (insurance and taxes). This made it unnecessary for the bank to post each individual loan grouped in a given control. The bank maintained individual accounts for all loans not falling in a control group. Each month, the bank forwarded the petitioner a statement reflecting details as to monthly payments due on loans in each control (interest, principal, and trust funds). The bank also sent monthly statements reflecting amounts due from petitioner on individual loans not grouped in a control. These monthly statements which the bank sent the petitioner reflected the amount of interest, principal, and trust funds (insurance and taxes) due for the month. Exhibit 8(a) is a copy of monthly statements which the bank sent petitioner for the month of November, 1944 and it is typical of statements for other months.

Every installment sales contract reflected on petitioner's books was closed by petitioner at the time the property covered by the contract was deeded to the purchaser. In substantially all cases, the property covered by an installment sales contract was not deeded to the purchaser until the purchaser paid the entire balance due on the installment sales contract and, concurrently with the receipt of such sum, petitioner paid the bank the balance due on the

loan which was secured by a deed of trust on the residence covered by the installment sales contract.

In a few cases, by special arrangement between the petitioner and the purchaser, under conditions not entitling the purchaser to a deed, the petitioner has nevertheless deeded the individual lot to the purchaser without requiring the payment of the purchase price in full. In each of such cases, which in the aggregate represent only a small percentage of the total number of contracts, the deed was issued for individual and personal reasons and not as of right on the part of either party. In such cases, the party receiving the deed made arrangements with the bank to assume the mortgage on the residence in question and paid petitioner any balance due on the installment sales contract in excess of the then balance due on the deed of trust. In every instance in which a deed was issued to a purchaser, such purchaser's installment sales contract was closed, and petitioner reported as income the entire amount of the unrealized profit for the year in which the installment account was closed and the deed was issued.

The purchasers of individual residences were only informed as to the amount of the loan secured by the deed of trust on the residence which they purchased on the date the purchasers executed the uniform agreements of sale, Exhibits 7(a), 7(a-1), 7(a-2), or 7(a-3), and at the time the purchaser's installment account was closed and they received deeds to the residences. The purchasers of residences on the installment plan were given no infor-

mation relating to the deeds of trust or loans secured by deeds of trust on residences which they purchased, or relating to payments which petitioner made on such loans at any other time.

When all lots in a subdivision were subject to individual deeds of trust, Henry Stoneson and Ellis L. Stoneson, the individual stockholders of the petitioner, and their wives, who had personally signed the original note and blanket deed of trust to the bank, were released from their personal responsibility thereon, so that the petitioner and petitioner only has at all times had the sole and primary liability to the bank on the deeds of trust with respect to houses covered by installment contracts which have not been closed, and during all of said period with respect to such deeds of trust, neither the purchaser nor any other party has had liability to the bank with respect to said loans. The outstanding liability on the deeds of trust covering individual residences sold on the installment plan during the years 1942, 1943, 1944, and 1945 were as follows at the close of each of the years 1942 to 1945, both inclusive:

December 31, 1942,	\$1,389,872.34
December 31, 1943,	1,540,081.24
December 31, 1944,	1,294,709.57
December 31, 1945,	1,523,808.58

While each of the Uniform Agreements of Sale in anticipation of a possible transfer of the property to the purchaser before payment in full of the purchase price called for the concurrent execution of an assumption of the mortgage by the purchaser,

to be used if and when the election was exercised, the document actually signed was Exhibit 7(b) and, even had title passed before complete performance by the purchaser, the taxpayer would have remained primarily responsible to the bank for the full unpaid balance of the mortgage.

Inquiry has been made of the bank as to the conditions under which it would release the petitioner from its liability in the event of assumption thereof by the purchaser, and the petitioner has been informed authoritatively by George Meyer, Vice-President of the bank, that no agreement was ever made by the bank to give such release (apart from payment in full of the deed of trust) and that it was against the bank's policy, except under such condition, to give such a release, and that he will so testify if called upon.

The case of this Petitioner and the case of The Brookfield Corporation, Docket No. 42,445, involve essentially the same issue with respect to the determination of income realized on installment sales. The two cases have been consolidated for hearing and decision. Accordingly, the following facts common to each petitioner are consolidated in a single statement.

During the years 1942 to 1945, inclusive, the petitioners constructed and sold a total of 1,299 houses on the installment plan under the method hereinbefore described, summarized as follows (the statistical data on The Brookfield Corporation includes 49 deferred payment sales and 5 cash sales):

Year	Total	The Brookfield Corporation	The Stonecrest Corporation
1942,	467	118	349
1943,	732	644	88
1944,	9		9
1945,	91		91
Total,	1,299	762	537

The date each petitioner was required to commence payment to the bank on an individual loan was determined at the time each loan was granted. Such date was generally the first of the fourth or the first of the sixth month following the date the loan was authorized. The first payment, and all subsequent payments were always due on the first day of a month and each payment was due according to the original loan agreement regardless of whether the house on which the deed of trust securing the loan had been completed and/or sold. The purchaser of any specific house was required to make his first monthly installment payment to petitioner on the first day of the month following the month the house was completed in the event the sale took place before completion, or the first day of the month following the month of sale if the sale took place after completion. There was no intended correlation between the commencement of payments due from purchasers on homes sold under installment contracts and the commencement of payments by petitioner to the bank on its loans secured by deeds of trust on the properties sold on the installment plan. Of the 1,299 installment sales referred to above, the ledger sheets with reference to 9 accounts which

have been closed have been misplaced and are currently not available. As shown below, of 1,290 installment sales for which information is currently available, the petitioners in 807 cases were required to make payments on their loans secured by deeds of trust on the 807 houses at least one month before installment payments commenced on installment contracts covering sales of the 807 houses. Petitioners were entitled to receive payments on 227 installment contracts covering sales of houses at least one month before they were obligated to make payments on their loans secured by deeds of trust on the 227 houses, and in 256 cases the first payments petitioners were entitled to collect on installment contracts were due on the same date petitioners were required to make payments on loans secured by deeds of trust on the 256 houses.

Number of jobs on which first payment on bank loan secured by a deed of trust on a house was due at least one month before first payment was due on installment contract covering sale of house: The Brookfield Corporation, 531, The Stonecrest Corporation, 276, Total: 807.

Number of jobs on which first payment on installment contract covering sale of a house was due at least one month before first payment was due on bank loan secured by deed of trust on the house: The Brookfield Corporation, 79, The Stonecrest Corporation, 148, Total: 227.

Number of jobs on which first payment on bank loan secured by deed of trust on a house and first payment on installment contract covering sale of

house was due on the same day. The Brookfield Corporation, 143, The Stonecrest Corporation 113, Total: 256. The Brookfield Corporation 753, The Stonecrest Corporation 537, Total 1,290.

In none of the 807 cases in which the petitioners were obligated to make payments on the loans secured by deeds of trust on the houses at least one month before purchasers were required to make monthly installment payments on the purchase price of the houses was any arrangement made so as to have the respective number of payments on the purchase price coincide with the number of payments required on loans secured by deeds of trust on the 807 houses. In none of the 207 cases in which the purchaser was required to make monthly installment payments on the purchase price at least one month before petitioners were obligated to make monthly payments on the loans secured by deeds of trust on the 207 houses were arrangements made so as to have the number of payment on the purchase price of the 207 houses coincide with the number of payments petitioners were required to make on the loans secured by deeds of trust on the 207 houses. In the event purchasers of houses on the installment plan made all payments on the due dates, and petitioners made all payments on their loans secured by deeds of trust on the houses in question which were sold on the installment plan on the due dates, in none of the 1,034 cases would the balances due on the purchase price of any of the houses ever correspond with the balances petitioners owed on loans secured by deeds of trust on the 1,034 houses

during the entire life of the installment sales agreement with the exception that other than in the few cases referred to in the first paragraph on page 10 hereof purchasers would be required to pay the balances due on installment contracts in full and petitioners would be required to pay loans secured by deeds of trust in full on the date an installment contract was closed and a deed issued to the purchaser.

In the case of petitioner Stonecrest of the 349 houses sold on the installment plan during the year 1942, the purchase price of 80 houses was receivable in monthly installments over a period of 20 years, and petitioner's loans secured by deeds of trust on the 80 houses in question were payable in monthly installments over a period of 25 years.

In the case of 8 of the foregoing 80 sales the purchaser was not required to commence monthly payments on the installment contracts for at least one month after the petitioner was obligated to commence monthly payments on the loans secured by deeds of trust on the 8 houses. In 56 of the 80 cases the purchasers were required to commence monthly installment payments on the purchase price at least one month before the petitioner was obligated to commence payments on loans on deeds of trust secured by the 56 houses. In 16 of the 80 cases, the date the purchasers were required to commence first payments on the installment contracts and the date petitioner was obligated to make the first monthly payments on loans secured by deeds of trust on the 16 houses coincided. Aside from the un-

balance between the amount due on the purchase price of 64 of said houses and the balance due on loans secured by deeds of trust on the said 64 houses in the 64 cases where the date of the first monthly installment payment due from purchasers did not coincide with the first date on which petitioner was required to commence monthly payments on loans secured by deeds of trust on the 64 houses, in all of the 80 cases there was a further lack of balance since purchasers of said houses were required to pay the total purchase price in monthly installments over a period of 20 years while petitioner by the terms of loans secured by deeds of trust on such houses was allowed to discharge the loans in monthly installments over a period of 25 years.

Assuming both parties met their respective obligations on the due dates, only in those cases in which the life of the installment contract and the life of the loan secured by a deed of trust on the property sold were the same and the due date of the first payment on the installment sales contract coincided with the due date of the first payment on the loan secured by a deed of trust on the house sold on the installment plan would the balance of such loans ever coincide with the balances due on the purchase price of the houses during the entire life of the sales contract. As previously explained, in 256 of 1,290 cases, the said respective due dates coincided. Since in 16 cases of the said 256 cases the life of the loans secured by deeds of trust was 25 years and the life of the installment contracts was 20 years, only in 240 of the 1,290 cases would the balance of the loans

and the balance of the purchase price ever coincide, assuming both parties met their respective obligations on the due dates.

The purchasers made down payments and monthly payments to petitioners on installment contracts only in cash, by check, draft, or money order. In no month did all the purchasers make installment payments to the petitioners on the dates payments were due on all installment contracts. In each month the petitioners made payments on all loans secured by deeds of trust on houses sold on the installment plan prior to the dates all of the purchasers had made payments on installments due during the month on outstanding installment contracts. Illustratively, the number of payments received in each month of the years 1944 and 1945 by each of the petitioners covering delinquencies of over one month were as follows:

	The Brookfield Corporation		The Stonecrest Corporation	
	1944	1945	1944	1945
January	93	217	52	61
February	120	168	55	51
March	136	151	52	43
April	147	149	49	52
May	132	219	43	43
June	135	152	33	29
July	127	109	47	40
August	149	106	34	25
September	121	85	53	39
October	128	96	41	20
November	147	82	39	19
December	132	113	23	19

Exhibits 9 (a) and 9 (b) with respect to petitioner Stonecrest reflect all installment contracts

outstanding on the first day of each month for each month of each of the years 1944 and 1945; all petitioners loans outstanding on such dates which were secured by deeds of trust on houses sold under such installment contracts, the dates on which petitioner made monthly payments to the bank on all of such outstanding loans and the number of purchasers who had not made current monthly installment payments to petitioner at the time petitioner made its said current monthly loan payment to the bank.

Exhibits 9 (c) and 9 (d) with respect to petitioner Brookfield reflect all installment contracts outstanding on the first day of each month for each month of each of the years 1944 and 1945; all petitioners loans outstanding on such dates which were secured by deeds of trust on houses sold under such installment contracts, the dates on which petitioner made monthly payments to the bank on all of such outstanding loans and the number of purchasers who had not made current monthly installment payments to petitioner at the time petitioner made its said current monthly loan payment to the bank.

During each of the years 1942, 1943, 1944, and 1945, each of petitioners deposited all funds which they received including all collections from individuals purchasing houses on the installment plan in their respective corporate bank accounts. Separate or special bank accounts were never set up by either petitioner for any portion of any of the payments collected from individuals who had purchased houses on the installment plan, and no por-

tion of any payment received from any installment purchaser was ever segregated, set aside, appropriated or earmarked for payment on installment loans. Each petitioner made payment of loans secured by deeds of trust on houses sold on the installment plan out of its general funds, which comprised all funds of every nature whatsoever received by each petitioner.

5. The sales price, cost and profit to be realized pertaining to houses which petitioner Stonecrest sold on the installment plan and as completed sales were as follows for each of the years 1942 to 1945, both inclusive:

Installment Sales				Completed Sales		
	Sales Price	Cost	Profit to be Realized	Sales Price	Cost	Profit Realized
2,....	\$1,561,882.28	\$1,226,285.33	\$335,596.95	\$31,450.00	\$24,691.83	\$6,758.17
3,....	452,450.00	347,663.12	104,786.88			
4,....	47,250.00	35,629.11	11,620.89			
5,....	591,500.00	507,871.00	83,629.00			
al,	\$2,653,082.28	\$2,117,448.56	\$535,633.72	\$31,450.00	\$24,691.83	\$6,758.17

6. The payments which the petitioner Stonecrest received during each of the years 1942, 1943, 1944, and 1945 on installment sales of real estate made during each of those years, together with the payments received during each of the years 1943, 1944, and 1945 on installment sales made prior to the commencement of the year 1943, the year 1944, and the year 1945, are summarized as follows:

A. Installment payments actually received in cash on installment sales of 349 houses made during

the year 1942: (a) Cash down payment on 1942 installment sales, \$72,692.00. (b) Installment payments received subsequent to date of sale on 1942 installment sales, 1942: \$27,624.99. 1943: \$316,831.35. 1944: \$251,574.55. 1945: \$196,220.04.

B. Installment payments actually received in cash on installment sales of 87 houses and 1 lot made during the year 1943: (a) Cash down payment on 1943 installment sales, \$25,250.00. (b) Installment payments received subsequent to date of sale on 1943 installment sales, 1943: \$3,266.80. 1944: \$40,607.13. 1945: \$83,165.12.

C. Installment payments actually received in cash by petitioner on installment sales of 9 houses during 1944: (a) Cash down payment on 1944 installment sales, \$2,400.00. (b) Installment payments received subsequent to date of sale on 1944 installment sales, 1944: \$2,732.19. 1945: \$3,768.02.

D. Installment payments actually received in cash by petitioner on installment sales of 91 houses during 1945: (a) Cash down payment on 1945 installment sales, \$73,300.00. (b) Installment payments received subsequent to date of sale on 1945 installment sales, 1945: \$2,953.05.

E. Total installment payments actually received in cash by petitioner on installment sales during the years 1942 through 1945, 1942: \$100,316.99. 1943: \$345,348.15. 1944: \$297,313.87. 1945: \$359,406.23.

7. Petitioner Stonecrest reported that it realized taxable income from installment sales of real estate in its income and excess profits tax returns for the years 1942, 1943, 1944 and 1945, as follows:

Taxable profit realized on installment sales made during 1942, and on collection on such sales received in 1943, 1944 and 1945: 1942: \$21,554.26. 1943: \$68,-233.14. 1944: \$59,808.92. 1945: \$37,117.31.

Taxable profit realized on installment sales made during 1943, and on collections on such sales received in 1944 and 1945, 1943: \$6,817.41. 1944: \$9,621.83. 1945: \$19,096.73.

Taxable profit realized on installment sales made during 1944, and on collections on such sales received in 1946, 1944: \$1,262.03. 1945: \$926.72.

Taxable profit realized on installment sales made during 1945, 1945: \$10,781.21.

Total; 1942: \$21,554.26. 1943: \$75,050.55. 1944: \$70,692.78. 1945: \$67,921.97.

If the Tax Court finds in favor of petitioner Stonecrest and determines that mortgages subsisting at the dates of sales of real estate on the installment plan, to the extent such mortgages did not exceed petitioner Stonecrest's bases of the properties sold on the installment plan are not required to be deducted from the sales price in determining the contract price, and that the excess of such subsisting mortgages at the dates of sale over the said bases is not required to be included as part of the initial payments received during the year of sale, then the correct amount of income on houses sold on the installment plan, which petitioner Stonecrest realized and which it was required to report in its income and excess profits tax returns for each of the years 1942, 1943, 1944 and 1945 was, respectively as follows, to wit:

10. The aggregate amount of loans secured by Deeds of Trust on houses sold at date of sale of all houses sold on the installment basis during each of the years 1942, 1943, 1944 and 1945, amounted respectively to \$1,396,000.00, \$384,400.00, \$39,150.00 and \$491,400.00. The loans in question are all designated as “* Mortgages” on the schedule on Page 24 of this stipulation. During each of the years 1942, 1943 and 1944, the amount of the mortgage on each house sold on the installment plan was in excess of the cost of such house; the cost of each house sold on the installment plan during the year 1945 was in excess of the mortgage on such house.

11. The deferred installment payments referred to in Paragraph 2 of Pages 2 and 3 of this stipulation and which are referred to in other paragraphs herein bore interest at the rate of 6% per annum on that portion of the purchase price specified in Exhibit 7(a) payable during the first 27 months (the first period) and at the rate of 4½% per annum on that portion of such purchase price receivable payable during the remaining term of the contract.

This interest arrangement was modified with respect to installment contracts receivable arising in connection with the execution of contract Exhibit 7(a)-3. Under the latter contracts installments payable equal to the balance of the purchase price due from the purchaser of a house in excess of the original amount of the loan secured by a Deed of Trust on such house bore interest at the rate of 6% per annum and the remaining portion due on said purchase price bore interest at the rate of 4½% per

annum. Each payment required under the installment contract included a payment due on the deferred portion of the sales price, interest thereon at the rate or rates specified and a payment equal to estimated taxes and insurance applicable to each house that was sold on the installment plan.

The level of payments which purchasers were required to make to petitioners during the first 27 months (the first period) on the installment contract were, in all instances, greater than the level of payments which purchasers were required to make to petitioner during the remaining term of the installment contracts. The term of all installment contracts was either for a 20-year period or a 25-year period. The level of payments collected during the period the first 27 installment payments under each contract over the level of payments prevailing during the remaining term of the contract amount to a sum equal to the excess of the balance of the purchase price due from the purchasers over the original amount of the loan secured by a deed of trust on each property sold on the installment plan, together with interest on the principal amount of such excess at the rate of 6% per annum.

12. The "other collections on the contract price" as set forth in the schedule on Page 24, showing the Commissioner's computation of profit realized on installment sales do not include all collections on installment contracts. The "other collections on contract price" set forth in such schedule include only the principal portion of the level of payments collected during the period the first 27 installment pay-

ments are received over the level of payments prevailing during the remaining term of the contract as set forth in Paragraph 11 above. No other part of payments which petitioner collected from the purchaser, either during the first 27 months or in any subsequent month, were included by the Commissioner in "other collections on contract price."

13. Whenever a purchaser under any installment contract paid petitioner the full sum designated in the contract as the purchase price, such purchaser was entitled to receive a deed to the property free and clear of the Deed of Trust.

14. Under the petitioner's method of accounting, which it followed in determining income realized on installment sales, for both accounting and tax purposes, income on installment sales was recognized during each year in which collections were received on such sales and the amount of income it recognized as realized represented that portion of payments received from the purchasers during each year on a given installment sale which the gross profit to be realized on that sale when payments were completed bore to the total price of the residence sold on the installment plan. The petitioner reported the sales price as being the contract price and it did not diminish the sales price of the residence sold in the amount of the subsisting loans secured by a Deed of Trust on the residences in question at the date of sale which was not in excess of the cost of the residence sold. During the years 1942, 1943, 1944 and 1945, petitioner sold, respectively, 349, 88, 9 and 91 residences on the install-

ment plan under contracts which in many cases gave the purchasers a period of 25 years in which to pay the purchase price in monthly installments, and in some cases a period of only 20 years.

Dated 11-1-54.

/s/ DANIEL A. TAYLOR,
Attorney for Commissioner of
Internal Revenue.

Dated Nov. 1, 1954.

/s/ BERT F. RABINOWITZ,
Counsel for Petitioner.

Dated Nov. 1, 1954.

/s/ SCOTT H. DUNHAM,
Certified Public Accountant,
Of Counsel.

[Endorsed]: T.C.U.S. Filed Nov. 4, 1954.

[Title of Tax Court and Cause No. 42,446.]

STIPULATION OF FACTS

It is hereby stipulated and agreed between the Commissioner of Internal Revenue and the above entitled petitioner, by their respective undersigned attorneys, that the following facts shall be taken as true, provided, however, that this stipulation does not waive the right of either party to introduce other evidence not at variance with the facts herein

stipulated, or to object to the introduction in evidence of any such facts on the grounds of immateriality or irrelevancy.

1. Petitioner is a California corporation, organized February 27, 1942, with its principal office at 3150 - 20th Avenue, San Francisco, California. At the date of filing its petition with The United States Tax Court, its office was at 3455 - 19th Avenue, San Francisco, California. It filed its income and excess profits tax returns for the calendar years 1942, 1943, 1944 and 1945, with the Collector of Internal Revenue in San Francisco, California. It kept its books and records with respect to most of the sales of real estate on the installment method of accounting and it elected to report, and reported, and was entitled to report profits on sales of such real estate on the installment method of accounting for each of the above years and for subsequent years. It kept its books with respect to other sales of real estate on the accrual basis and it elected to report and reported and was entitled to report profits or losses on such sales of real estate as deferred payment sales not on the installment basis.

2. Petitioner's operations for the years 1942 to 1945 and for all subsequent years have been confined solely to the development and liquidation of a single subdivision in Alameda County known as Brookfield. Petitioner acquired land, planned and subdivided the land, made necessary subdivision improvements, constructed individual residences on the improved lots, and sold the residences. The property was developed and the residences were constructed

and sold during the years 1942 and 1943, and petitioner's activities for the years 1944, 1945, and all subsequent years have been confined primarily to servicing the subdivision and the residences erected on building lots therein which it sold, collecting amounts due from purchasers of the residences, paying principal and interest on its indebtedness to The San Francisco Bank, all of which consists of individual loans secured by deeds of trust on individual residences sold, maintaining books and records, and undertaking other necessary activities in connection with the development and liquidation of the Brookfield subdivision.

Most of the residences were sold on the installment basis. Some of the residences were sold on a long-term payment plan and were classified as deferred payment sales. A few of the residences were sold for cash. The following summary reflects sales of individual residences and the method used by petitioner to record and report profits or losses attributable to the residences sold:

Year: 1942. Number of Houses Sold: 118. Number of Houses Sold for Cash: None. Number of Houses Sold Under Installment Contracts on Which Petitioner Elected to Report Profits and Reported Profits on Such Houses: As Installment Sales: 103. As Deferred Notes Not on the Installment Basis: 15.

Year: 1943: Number of Houses Sold: 644. Number of Houses Sold for Cash: 5. Number of Houses Sold Under Installment Contracts on Which Petitioner Elected to Report Profits and Reported Profits on Such Houses: As Installment Sales: 605.

As Deferred Notes Not on the Installment Basis: 34.

Totals: Number of Houses Sold: 762. Number of Houses Sold for Cash: 5. Number of Houses Sold Under Installment Contracts on Which Petitioner Elected to Report Profits and Reported Profits on Such Houses: As Installment Sales: 708. As Deferred Notes Not on the Installment Basis: 49.

The residences which petitioner sold during the years 1942 and 1943 on the installment plan and on the deferred payment plan were sold under identical type of contract under which purchasers were required to make small down payments on the purchase price at the date of sale and the balance of the purchase price was payable in monthly installments over a period of 25 years.

The tax and accounting treatment of the deferred payment sales, which were carried on the petitioner's records as completed sales and are sometimes referred to herein as completed sales, reflected that it realized profits on such sales for the years 1942 and 1943 in the respective amounts of \$14,705.50 and \$39,615.72, this being the excess of the sales price of the completed sales over the cost and tax basis of the houses which were sold on this basis. The attached Exhibit 1-A reflects pertinent details relating to completed sales made during the year 1942. The exhibit reflects the sales price of each house, the cost, the excess of the sales price over cost, the down payment, the amount of the sales price evidenced only by a contract receivable, and the collections on each contract receivable during the year of sale and during each of the years 1943,

1944 and 1945. The attached Exhibit 1-B reflects similar details relating to completed sales made during the year 1942. Petitioner reported the profits as reflected above in its income and excess profits tax returns for the years 1942 and 1943.

Under the petitioner's method of accounting, which it followed in determining income realized on installment sales, for both accounting and tax purposes, income on installment sales was recognized during each year in which collections were received on such sales and the amount of income it recognized as realized represented that portion of payments received from the purchasers during each year on a given installment sale which the gross profit to be realized on that sale when payments were completed bore to the total price of the residence sold on the installment plan. The petitioner reported the sales price as being the contract price and it did not diminish the sales price of the residence sold in the amount of the subsisting loans secured by a Deed of Trust on the residences in question at the date of sale which was not in excess of the cost of the residence sold. During the years 1942 and 1943, petitioner sold, respectively, 103 and 605 residences on the installment plan under contracts which gave the purchasers a period of 25 years in which to pay the purchase price in monthly installments.

The level of payments which the purchaser was required to make during the first 27 months was in all instances greater than the level of payments which the purchaser was required to make during

the balance of the period. The exact language of the agreement pertaining to monthly payments is as follows:

“The purchase price for said property which purchaser agrees to pay and seller agrees to accept therefor is the sum of \$. payable as follows: \$. cash, receipt of which is hereby acknowledged; \$. per month payable on the day of each and every month thereafter for a period of 27 months, (first period), and thereafter \$. per month payable on same day of each month until purchase price and interest are paid in full (second period).”

Under all contracts covering installment sales for the years 1942 and 1943, petitioner was entitled to receive collections from purchasers on residences sold on monthly installments over a 25-year period, or a period of 300 months, unless the contract was closed prior to the maturity date of the last monthly payment due thereon. Installment contracts were always closed when deeds were issued to purchasers. In most cases when installment contracts were closed, petitioner collected from the purchaser the balance then due on the installment contract and it issued a deed to the purchaser conveying title to the property free and clear of all encumbrances other than taxes assessed which were not then due and payable.

In a few cases, when an installment contract was closed, petitioner collected from the purchaser only the amount due from the purchaser in excess of the balance due by petitioner to The San Francisco

Bank on the loan secured by a deed of trust on the residence in question and the purchaser assumed the balance due on the loan and made arrangements with the bank to make all future payments due on such loan. The petitioner then issued a deed conveying the residence to the purchaser subject to the assumed loan and taxes assessed which were not then currently due and payable. In all instances when an installment contract was closed, petitioner closed the unrealized profit on such contract to realized profit and it reported such realized profits in its income and excess profits tax returns for the year in which the contract was closed.

The facts set forth in the stipulation of facts filed by petitioner Stonecrest, which are contained in Pages 3 to 20, both inclusive, including all exhibits referred to therein, apply to this petitioner Brookfield except where it is specifically stated that the facts are applicable only to the petitioner Stonecrest. The exhibits attached to the aforesaid stipulation filed by petitioner Stonecrest and designated as Exhibits 3(b), 3(c), 3(d), 3(e), 3(f), 4(a), 5(a), 5(b), 5(c), 6(a), 6(b), 6(d), 7(a), 7(a-1), 7(a-2), 7(a-3), 7(b), 7(c), 7(d), 7(e), 8(a), 8(b), 8(c), and 9(a), 9(b), 9(c), 9(d), are identical to the corresponding forms or agreements used by this petitioner, with the exception that the name Brookfield was substituted for the name Stonecrest in the documents with respect to agreements or business forms used by this petitioner.

The following exceptions from the facts set forth in the case of petitioner Stonecrest should be noted:

A. Petitioner Brookfield purchased undeveloped land from a partnership, consisting of Henry Stoneson, Ellis L. Stoneson, and Albert Bernhardt. Circumstances relating to the acquisition of undeveloped land and the financing and subdividing the land and the circumstances relating to the construction and financing of individual residences are identical with the circumstances relating to the acquisition, developing, and financing by petitioner Stonecrest, with the exception that in the case of the petitioner Brookfield, Henry Stoneson, Ellis L. Stoneson, and Albert Bernhardt, the Stockholders of petitioner Brookfield, and their respective wives were required personally to guarantee each individual note secured by individual deeds of trust on the houses constructed and sold and these individuals were never relieved from their secondary liability on such loans until the loans were either paid in full or, in the few cases referred to, assumed by the purchasers.

B. At all times during the years 1942, 1943, 1944, and 1945 and up to the present time, the petitioner, Brookfield has had primary liability to The San Francisco Bank with respect to every loan which it obtained which was secured by a deed of trust on a residence and its Stockholders and their wives have had secondary liability on such loans and neither the purchaser of the house encumbered by the loan secured by the deed of trust nor any party other than petitioner Brookfield, its Stockholders, and their wives, have had any liability to the bank with respect to such loans from the date each such loan

was granted to the date each such loan was paid in full, or assumed in those few cases where purchasers assumed the balance due to the bank on such loans at the time their contracts were closed and they obtained a deed to the property.

The outstanding liabilities on deeds of trust on individual residences sold during the years 1942 and 1943 on the installment basis, and as deferred payment sales on which petitioner Brookfield was primarily liable and on which its Stockholders and their wives were secondarily liable as guarantors, were as follows at the close of each of the years 1942 to 1953, both inclusive:

December 31, 1942,	\$2,002,000.00
December 31, 1943,	2,933,090.84
December 31, 1944,	2,823,621.25
December 31, 1945,	2,583,797.20
December 31, 1946,	1,531,873.19
December 31, 1947,	920,060.48
December 31, 1948,	743,534.74
December 31, 1949,	627,156.52
December 31, 1950,	525,525.35
December 31, 1951,	462,094.60
December 31, 1952,	376,424.51
December 31, 1953,	304,897.65

4. At the close of the year 1944, petitioner in error closed out 105 installment sales contracts covering sales which it had made on the installment plan during the years 1942 and 1943 and its books of account and income and profits tax return for the calendar year 1944 reflected a profit of \$75,833.18 as realized on the installment sales contracts which were closed out in error. Petitioner did not collect the balance due on the 105 install-

ment contracts during the year 1944 and none of the individuals who had purchased homes on the installment basis assumed a loan covered by a single deed of trust on any one of the 105 houses during the year 1944. During the year 1945, petitioner collected \$24,404.34 on the 105 installment sales contracts which it in error closed out during the year 1944 and, on the petitioner's method of accounting for profits realized on installment sales, petitioner realized a profit during the year 1945 on collections during that year on the contracts which were erroneously closed out during the year 1944.

If the Tax Court finds in favor of this petitioner and determines that mortgages subsisting at the dates of sale of real estate on the installment plan to the extent that such mortgages did not exceed petitioner's basis of the properties sold on the installment plan were not required to be deducted from the sales price in determining the contract price, and that the excess of such subsisting mortgages at the dates of sale over the said basis is not required to be included as a part of the initial payments received during the year of sale, then petitioner's income for the year 1944 as reported on its income and excess profits tax returns for that year was overstated in the amount of \$75,-833.18 and the income which it realized during the year 1945 and which it reported on its income and excess profits tax return for the year 1945 was understated in the amount of \$5,685.02.

5. If the Tax Court holds against the petitioner

and determines that mortgages subsisting at the dates of sales of real properties to the extent they did not exceed petitioner's basis of the properties sold on the installment plan, are required to be deducted from the sales price in determining the contract price, and that the excess of such subsisting loans over such basis is required to be included as part of the initial payment received during the year of sale, together with such portion of other collections which the Commissioner recognizes as being received by petitioner, constitutes income in the respective amounts of 100% of such excess mortgages and such recognized collections for the years 1942 and 1943, then petitioner will sustain net operating losses during each of the years 1946 and 1947 and, as a result, it will be entitled to carry the net operating loss for the year 1946 back to the year 1944 and it will be permitted to carry the net operating loss for the year 1947 back to the year 1945. The net operating loss deduction will give rise to unused excess profits credit carry-backs to the years 1942 and 1943. The amount of the net operating loss deduction allowable in the year 1944 will give rise to an unused excess profits credit carry-back which may be carried to the year 1942 and the net operating loss deduction for the year 1945 will give rise to an unused excess profits carry-back which may be carried to the year 1943. It is agreed that in the event the Tax Court renders a decision against the petitioner that the net operating loss carry-backs and resulting unused excess profits credit carry-backs resulting from the

determination of petitioner's income for the years 1946 and 1947 in accordance with the decision of the Tax Court will be duly taken into consideration in determining the deficiencies in income and excess profits taxes due from petitioner for the years 1942, 1943, 1944 and 1945.

6. The deferred installment payments referred to in the last paragraph on Page 4 and the first paragraph on Page 5 of this stipulation and which are referred to in other paragraphs herein bore interest at the rate of 6% per annum on that portion of the purchase price specified in Exhibit 7(a) payable during the first 27 months (the first period) and at the rate of 4½% per annum on that portion of such purchase price receivable payable during the remaining term of the contract.

This interest arrangement was modified with respect to installment contracts receivable arising in connection with the execution of contract Exhibit 7(a)-3. Under the latter contracts installments payable equal to the balance of the purchase price due from the purchaser of a house in excess of the original amount of the loan secured by a Deed of Trust on such house bore interest at the rate of 6% per annum and the remaining portion due on said purchase price bore interest at the rate of 4½% per annum. Each payment required under the installment contract included a payment due on the deferred portion of the sales price, interest thereon at the rate or rates specified and a payment equal to estimated taxes and insurance applicable to each house that was sold on the installment plan.

The level of payments which purchasers were required to make to petitioners during the first 27 months (the first period) on the installment contract were, in all instances, greater than the level of payments which purchasers were required to make to petitioner during the remaining term of the installment contracts. The term of all installment contracts was for a period of 25 years. The level of payments collected during the period the first 27 installment payments under each contract over the level of payments prevailing during the remaining term of the contract amount to a sum equal to the excess of the balance of the purchase price due from the purchasers over the original amount of the loan secured by a Deed of Trust on each property sold on the installment plan, together with interest on the principal amount of such excess at the rate of 6% per annum.

7. The sales price, cost and profit to be realized on houses which petitioner sold on the installment basis were as follows for each of the years 1942 to 1945, inclusive:

Year	Sales Price	Cost	Profit to be Realized
1942,	\$ 450,800.00	\$ 350,848.90	\$ 99,951.10
1943,	2,714,500.00	2,014,011.65	700,488.35
Total,	\$3,165,300.00	\$2,364,860.55	\$800,439.45

8. The sales price, cost, portion of the sales price collected in cash at the time of sale, the portion of the sales price deferred and evidenced by contracts receivable from the purchaser on houses

sold as deferred payment sales which petitioner did not elect to report on the installment basis for each of the years 1942 and 1943, inclusive, are as follows:

Year: 1942—Sales price: \$65,800.00. Cost: \$51,094.50. Portion of sales price collected in cash at time of sale: \$1,900.00. Portion of sales price deferred and evidenced by contracts receivable from purchasers: \$63,900.00.

Year: 1943—Sales price: \$152,800.00. Cost: \$113,184.28. Portion of sales price collected in cash at time of sale: \$5,100.00. Portion of sales price deferred and evidenced by contracts receivable from purchasers: \$147,700.00.

Total sales price: \$218,600.00. Total cost: \$164,278.78. Total portion of sales price collected in cash at time of sale: \$7,000.00. Total portion of sales price deferred and evidenced by contracts receivable from purchasers: \$211,600.00.

9. The sales price, cost and profit which the petitioner realized on cash sales of homes which were made during the year 1943, are as follows:

Year	Sales Price	Cost	Profit Realized
1943,	\$22,050.00	\$16,644.73	\$5,405.27

10. The following summary reflects the number of houses petitioner sold during the years 1942 and 1943, with respect to which it elected to report profits on the installment basis. The schedule also reflects the sales price of the houses in question, the cost of the houses sold, the total amount of the profit to be realized on the installment basis, the

down payment which petitioner collected in cash on the properties sold on the installment basis during each year and other collections on the installment sales which petitioner received during the years 1942, 1943, 1944 and 1945, and the total payments on installment sales which petitioner received during each of the years 1942 to 1945, both inclusive:

Number of houses sold on the installment basis: 1942: 103; 1943: 605.

Total sales price of houses sold on the installment basis: 1942: \$450,800.00; 1943: \$2,714,500.00.

Cost of property sold: 1942: \$350,848.90; 1943: \$2,014,011.65.

Profit to be realized: 1942: \$99,951.10; 1943: \$700,-488.35.

Down payment received on property sold on installment basis: 1942: \$14,300.00; 1943: \$100,150.00.

Other collections on installment sales: 1942: \$102.75; 1943: \$107,123.64; 1944: \$205,914.26; 1945: \$297,906.22.

Total payments on installment sales: 1942: \$14,-402.75; 1943: \$207,273.64; 1944: \$205,914.26; 1945: \$297,906.22.

11. If the Tax Court finds in favor of petitioner and determines that mortgages subsisting at the dates of sales of real estate on the installment plan, to the extent such mortgages did not exceed petitioner's bases of the properties sold on the installment plan are not required to be deducted from the sales price in determining the contract price,

and that the excess of such subsisting mortgages at the dates of sale over the said bases is not required to be included as part of the initial payments received during the year of sale, then the correct amount of income on houses sold on the installment plan, which petitioner realized and which it was required to report in its income and excess profits tax returns for each of the years 1942, 1943, 1944 and 1945, and which should be taken into consideration in determining its income tax liability for each of the years, is respectively as follows, to-wit:

1942,	\$ 3,193.07
1943,	50,616.17
1944,	51,833.78
1945,	75,918.03

The profit for the year 1945 amounting to \$75,918.03 includes the profit for that year amounting to \$5,685.02, referred to on Page 9 of this stipulation, which petitioner should have reported in its income and excess profits tax returns for the year 1945.

12. If the Tax Court holds against the petitioner and determines that mortgages subsisting at the dates of sales of real properties to the extent they did not exceed petitioner's basis of the properties sold on the installment plan are required to be deducted from the sales price in determining the contract price, and that the excess of such subsisting mortgages over such basis is required to be included as part of the initial payment received during the year of sale, together with that portion of

other collections which the Commissioner recognizes as being received by petitioner constitutes income in the respective amounts of 100% of such excess mortgages and such recognized collections for the years 1942, 1943, 1944, and 1945, then it is stipulated and agreed that the following schedule reflects the correct determination of income petitioner realized on installment and all other sales of real estate for each of the years 1942 to 1945, and the schedule also reflects the increase in profit realized by petitioner over the realized profit reported by the petitioner for each of the years 1942 to 1945, inclusive.

	1942	1943	1944	1945
Total sales	\$516,600.00	\$2,889,350.00	None	None
Cost of property sold....	401,943.40	2,143,840.66		
Profit to be realized.....	\$114,656.60	\$ 745,509.34		
Selling price	\$516,600.00	\$2,889,350.00		
Less: Mortgages* (limited to cost of property sold)	401,943.40	2,143,840.66		
Contract price	\$114,656.60	\$ 745,509.34		
Ratio of profit to be realized to contract price	100%	100%		

The Brookfield Corporation—Supporting Statement

	1942	1943	1944	1945
*Mortgages	\$462,000.00	\$2,552,300.00		
Mortgages on property sold	462,000.00	2,552,300.00		
Less: Cost of property sold	401,943.40	2,143,840.66		

	1942	1943	1944	1945
Mortgages in excess of cost of property	\$ 60,056.60	\$ 408,459.34		
Down payment received on property sold	16,200.00	100,600.00		
Other collections on contract price	101.98	70,923.16*	\$120,435.11a	\$80,725.64b
Total realized profit applicable to current year	\$ 76,358.58	\$ 579,982.50	\$120,435.11	\$80,725.64
Realized profit reported	17,898.57	95,637.15	127,666.96	70,233.01
Increase in realized profit	\$ 58,460.01	\$ 484,345.35	(\$ 7,231.85)	\$10,492.63

* Includes collections received on 1942 contract price. Reportable 100 per cent.

(a) 1944 collections on 1942 and 1943 contract price. Reportable 100 per cent.

(b) 1945 collections on 1942 and 1943 contract price. Reportable 100 per cent.

13. The Commissioner and the petitioner executed agreements pursuant to Section 276(b) of the Internal Revenue Code of 1939, as amended, to extend beyond the time prescribed in Section 275 thereof, the time within which the Commissioner might assess the tax for the year 1944 and the year 1945, as follows:

Year	Date of Agreement	Time for Assessment Extended to
1944	12/29/47	6/30/49
"	3/25/49	6/30/50
"	4/18/50	6/30/51
"	2/27/51	6/30/52
1945	1/25/49	6/30/49
"	3/25/49	6/30/50
"	4/18/50	6/30/51
"	2/27/51	6/30/52

The petitioner paid the Federal income and declared value excess profits tax reflected on its return for the year ending December 31, 1944, in the amount of \$26,480.44, as follows:

March 15, 1945.....	\$ 6,620.11
June 13, 1945.....	6,620.11
September 14, 1945.....	6,620.11
December 10, 1945.....	6,620.11
Total	<u>\$26,480.44</u>

The petitioner paid the Federal income tax reflected on its return for the year ended December 31, 1945, in the amount of \$8,322.17 on March 15, 1946.

14. The aggregate amount of loans secured by Deeds of Trust on houses sold at date of sale of all houses sold on the installment basis during each of the years 1942 and 1943, amounted respectively to \$462,000.00 and \$2,552,300.00. The loans in question are designated as "Mortgages on property sold" on the schedule on Page 18 of this stipulation. During each of the years 1942 and 1943, the

amount of the mortgage on each house sold on the installment plan was in excess of the cost of such house.

15. The "other collections on the contract price" as set forth in the schedule on Page 18, showing the Commissioner's computation of profit realized on installment sales do not include all collections on installment contracts. The "other collections on contract price" set forth in such schedule include only the principal portion of the level of payments collected during the period the first 27 installment payments are received over the level of payments prevailing during the remaining term of the contract as set forth on Page 11 above. No other part of payments which petitioner collected from the purchaser, either during the first 27 months or in any subsequent month, were included by the Commissioner in "other collections on contract price".

16. Whenever a purchaser under any installment contract paid petitioner the full sum designated in the contract as the purchase price, such purchaser was entitled to receive a deed to the property free and clear of the Deed of Trust.

Dated November 1, 1954.

/s/ DANIEL A. TAYLOR,

Attorney for Commissioner of
Internal Revenue.

Dated November 1, 1954.

/s/ BERT F. RABINOWITZ,

Counsel for Petitioner.

Dated November 1, 1954.

/s/ SCOTT H. DUNHAM,
Certified Public Accountant
of Counsel.

[Endorsed]: T.C.U.S. Filed November 4, 1954.

[Title of Tax Court and Cause No. 42446.]

AMENDED PETITION

The above-named petitioner hereby petitions for a redetermination of the deficiencies set forth by the Commissioner of Internal Revenue in his notice of deficiency issued by the Office of the Internal Revenue Agent in Charge, San Francisco Division (Symbols: IRA:90-D:CRA (C:AS:PD:SF:HGP)), dated April 9, 1952, and as a basis of its proceedings alleges as follows:

1. The petitioner is a corporation with its principal office at 3150 Twentieth Avenue (formerly 3455 Nineteenth Avenue), San Francisco, California. The returns for the periods here involved were filed with the Collector for the First District of California.

2. The notice of deficiency (a copy of which is attached and marked Exhibit "A") was mailed to the petitioner on April 9, 1952.

3. The deficiencies as determined by the Commissioner are deficiencies in income tax, declared value excess profits tax, and excess profits tax, as follows:

Taxable Year Ended December 31	Total	Income Tax	Declared Value	
			Excess Profits Tax	Excess Profits Tax
1942	\$ 46,549.58	\$ 2,116.32	\$ 6,514.86	\$ 37,918.40
1943	393,146.81	21,803.05	61,998.28	309,345.48
1944	24,245.53	1,679.71	3,287.51	19,278.31
1945	18,748.35	17,686.81	1,061.54	
Total	\$482,690.27	\$43,285.89	\$72,862.19	\$366,542.19

The amounts of such taxes in controversy are deficiencies in income tax, declared value excess profits tax and excess profits tax, as follows:

Taxable Year Ended December 31	Total	Income Tax	Declared Value	
			Excess Profits Tax	Excess Profits Tax
1942	\$ 46,549.58	\$ 2,116.32	\$ 6,514.86	\$ 37,918.40
1943	393,146.81	21,803.05	61,998.28	309,345.48
1944	24,245.53	1,679.71	3,287.51	19,278.31
1945	18,748.35	17,686.81	1,061.54	
Total	\$482,690.27	\$43,285.89	\$72,862.19	\$366,542.19

In addition the petitioner claims an overassessment of income tax and declared value excess profits tax for the year ended December 31, 1944, in the respective amounts of \$25,507.49 and \$972.95 and an overassessment of income tax for the year ended December 31, 1945 in the amount of \$8,322.17.

4. The determination of the taxes set forth in said notice of deficiency is based on the following errors:

a. The Commissioner erred in determining that a portion only instead of all the installment payments actually received by this petitioner during the years 1942, 1943, 1944 and 1945 should be considered in determining the profits which this peti-

tioner realized during such years from the installment sales of single family residences during the years 1942 and 1943.

b. The Commissioner erred in determining that, for the purpose of the "contract price" under Section 44 of the Internal Revenue Code, the sales prices of the single family residences sold by this petitioner during the years 1942 and 1943 should be reduced by the outstanding mortgages thereon to the extent such mortgages did not exceed the basis of such residences to this petitioner.

c. The Commissioner erred in determining that 100% of that portion of the installment payments actually received by this petitioner during the years 1942, 1943, 1944, and 1945 from its sales during 1942 and 1943, which he considered as collections (i.e., total installment payments actually received) on such sales, constituted profit to it.

d. The Commissioner erred in determining that the gross profit to be realized when payments are completed should be returned as income over a period of less than three years, rather than over the entire period in which installment payments are actually received by this petitioner from the purchasers of the residences.

e. The Commissioner erred in determining that the excess of the mortgages outstanding against the homes sold over the basis of the homes to the petitioner constituted a part of the initial payments received by this petitioner.

f. The Commissioner erred in determining that this petitioner realized profit in the year 1942 on such installment sales in the amount of \$76,358.58.

g. The Commissioner erred in not allowing this petitioner a net operating loss carryover from the year 1942 to the year 1944 in the amount of \$22,-886.25.

h. The Commissioner erred in determining that this petitioner realized profit in the year 1943 on such installment sales in the amount of \$579,982.50.

i. The Commissioner erred in not allowing this petitioner a net operating loss carryover from the year 1943 to the year 1945 in the amount of \$54,-807.65.

j. The Commissioner erred in determining that salaries paid to officers of this petitioner during the year 1944 in the amount of \$27,000.00 were not deductible in determining its net income for such year.

k. The Commissioner erred in determining that this petitioner realized profit in the year 1944 on such installment sales in the amount of \$120,435.11.

l. The Commissioner erred in determining that salaries paid to officers of this petitioner during the year 1945 in the amount of \$27,000.00 were not deductible in determining its net income for such year.

m. The Commissioner erred in determining that this petitioner realized profit in the year 1945 on such installment sales in the amount of \$80,725.64.

n. The Commissioner erred in determining the average daily borrowed capital of this petitioner for the taxable year ended December 31, 1942, the first year of this petitioner's existence, without taking into account that such taxable year encompassed only 310 days.

o. The Commissioner erred in not allowing additional deductions for California bank and corporation franchise taxes during the years 1942, 1943, 1944, and 1945, which additional taxes would necessarily arise if the determination of the Commissioner relating to adjustments to this petitioner's income for such period were correct.

p. If the Commissioner's method of reporting the profits realized by this petitioner during the years 1942, 1943, 1944, and 1945 from the sales of the single family residences during the years 1942 and 1943 is correct, he has erred in the determination of the deficiencies in income and profits taxes for such years by reason of the fact that he has not taken into account net operating loss carrybacks from the years 1946 and 1947 and unused excess profits credit carrybacks from the years 1944 and 1945 all of which would arise primarily by reason of the reporting of this petitioner's profit for the years 1946 and 1947 from the sales in question in accordance with the method determined by the Commissioner.

q. The Commissioner erred by failing to determine that petitioner reported a profit of \$75,833.18 for the year 1944 and no profit for the year 1945

as realized on certain installment sales made during the years 1942 and 1943, and that no portion of such amount of \$75,833.18 with respect to these certain installment sales should have been reported as realized profit in the year 1944 and that only \$5,685.02 of such amount of \$75,833.18 with respect to these certain installment sales should have been reported as realized profit in the year 1945.

r. The Commissioner erred in not allowing a net operating loss deduction for the year 1944 in the amount of \$22,886.25.

s. The Commissioner erred in not allowing a net operating loss deduction for the year 1945 in the amount of \$54,807.65.

t. The Commissioner erred by failing to determine that the fair market value of each sales contract which this petitioner received upon the sale of each house sold during the year 1942 did not exceed $66\frac{2}{3}\%$ of the face amount thereof at the date of sale and at all times during the year 1942.

u. The Commissioner erred by failing to determine that the fair market value of each sales contract which the petitioner received upon the sale of each house sold during the year 1943 (other than contracts with respect to sales of houses during 1943 which were collected in full during that year) did not exceed $66\frac{2}{3}\%$ of the face amount thereof at the date of sale and at all times during the year 1943.

v. The Commissioner erred in determining the

petitioner's profit or loss on the sale during 1942 of 15 houses having an aggregate stated contract price in the amount of \$65,800.00 and an aggregate cost in the amount of \$51,094.50 on the installment basis under Section 44 of the Internal Revenue Code, although the petitioner did not elect in its return for the year 1942 to report such sales on the installment basis.

w. The Commissioner erred by failing to determine that the profit or loss realized by the petitioner on sale of each of the 15 houses described in subparagraph 4(v) above should be reported on the deferred payment method by treating the fair market value of each sales contract plus the amount of each down payment received as the consideration and by computing the profit or loss on each sale by comparing such aggregate consideration with the cost of each property sold.

x. The Commissioner erred in determining the petitioner's profit or loss on the sale during 1943 of 34 houses having an aggregate stated contract price in the amount of \$152,800.00 and an aggregate cost in the amount of \$113,184.28 on the installment basis under Section 44 of the Internal Revenue Code, although the petitioner did not elect in its return for the year 1943 to report such sales on the installment basis.

y. The Commissioner erred by failing to determine that the profit or loss realized by the petitioner on sale of each of the 34 houses described in subparagraph 4(x) above should be reported on

the deferred payment method by treating the fair market value of each sales contract plus the amount of each down payment received as the consideration and by computing the profit or loss on each sale by comparing such aggregate consideration with the cost of each property sold.

5. The facts upon which this petitioner relies as the basis of this proceeding are as follows:

a. This petitioner was incorporated under the laws of the State of California on February 25, 1942.

b. This petitioner constructed and sold 762 houses under the installment contract method during the years 1942 and 1943.

c. Sales of such houses during the years 1942 and 1943 amounted to \$516,000.00 and \$2,889,350.00, respectively. The costs of such houses to this petitioner were in the respective amounts of \$401,943.40 and \$2,143,840.66, and the gross profits to be realized from such sales, when payments therefor were completed, were in the respective amounts of \$114,656.60 and \$745,509.34.

d. Initial payments received in connection with all sales reported by the petitioner on the installment basis under Section 44 of the Internal Revenue Code were in each case less than 30% of the sales price thereof.

e. This petitioner was entitled to elect to report the profits from such sales on the installment basis under Section 44 of the Internal Revenue Code.

f. The sales contract in the case of each sale set forth the full sales price of the residence. The difference between the sales price and the cash down payment constituted the amount of the unpaid balance due the petitioner from the buyer. Such balance was to be paid to the petitioner in monthly installments over a period of 25 years, together with interest thereon and payments to meet taxes and insurance on the property.

g. Each contract recited that a loan was outstanding against the residence at the time of sale, which loan the petitioner, as seller, agreed to pay.

h. Such loans had been previously made by the San Francisco Bank, San Francisco, California, to the petitioner and were Federal Housing Administration construction loans.

i. The petitioner was directly and primarily liable for the payment of such loans and has remained directly and primarily liable thereon for the unpaid balance thereof up to and including the present time.

j. In addition, the petitioner's stockholders, Ellis L. Stoneson, Henry Stoneson and Albert Bernhardt and their respective wives, Bertha K. Stoneson, Willette Stoneson, and Alfeld Bernhardt, were and have continued to be personally liable for the unpaid balance on such loans.

k. The petitioner alone was required to make all payments on such loans and, in fact, it alone has made all such payments to the bank direct with

its own funds, whether or not it received payments from its purchasers on their obligations to it until installment contracts were closed and the properties deeded to the purchasers.

l. None of the purchasers of the residences has, in fact, ever assumed or paid to the bank any of such outstanding loans prior to the date contracts were closed and properties deeded to the purchasers.

m. All payments by the purchasers are required by the agreement of sale and have been made directly to and actually received by the petitioner.

n. Under the contract under which each residence was sold, the purchaser was entitled to a deed free and clear of the bank loan when he had paid the full sales price set forth in the contract.

o. The purchaser did not take the residence subject to the outstanding loan thereon.

p. Under Section 44 of the Internal Revenue Code, the formula for determining the percentage of profit realized by a seller on each installment payment received is as follows:

$$\frac{\text{Profit to be realized}}{\text{Contract price}} = \frac{\text{Per cent of each installment payment received which constitutes profit.}}{}$$

q. Since each residence was neither sold subject to the outstanding loan nor was such loan assumed by the purchaser, Regulations 111, Section 29.44-2 (and the section of the preceding regulations) is not applicable in determining the profit realized by this petitioner upon such sales insofar as it pro-

vides that the amount of the mortgage to the extent it does not exceed the basis of the property to the seller is not a part of the "contract price" and to the extent that it implies that the amount of the loan in excess of the basis to the seller is a part of the "initial payment" received by the seller.

r. In the case here at issue, even if the purchaser took the property subject to the loan, such provisions of Regulations 111, Section 29.44-2 are not applicable to the particular facts here involved since their application in this case would operate to create a rule out of harmony with and in contravention of the provisions of Section 44 of the Internal Revenue Code and of the court decisions interpreting such provisions.

s. If the Commissioner is correct in determining that the above provisions of Regulations 111, Section 29.44-2 apply to the facts of the instant case, to that extent such Regulations operate to create a rule out of harmony with the Internal Revenue Code, which is neither reasonable nor consistent therewith.

t. As applied to the principal case, the "contract price" for the purpose of determining the amount of profit realized by the petitioner from each installment payment received by the purchaser of a residence is the selling price thereof set forth in the agreement of sale.

u. The total amount of each payment received by the petitioner from each purchaser which is ap-

plicable to the principal amount of the unpaid balance of the selling price constitutes the installment payment actually received for the purposes of determining the amount of the profit realized by the petitioner.

v. Under Section 44 of the Internal Revenue Code, this petitioner is entitled and required to return the gross profit to be realized as income over the entire period in which installment payments are actually received by this petitioner from the purchasers of residences.

w. During the years 1942 and 1943, the petitioner properly reported its profits from sales of residences made during such years with respect to which it had elected to report on the installment basis under Section 44 of the Internal Revenue Code.

x. The profit realized by the petitioner during the taxable year ended December 31, 1942, from sales which the petitioner had elected to report on the installment basis under Section 44 of the Internal Revenue Code was in the amount of \$3,193.07 and such profit for the calendar year 1943 was in the amount of \$50,616.16. Such profit for the calendar year 1944 was in the amount of \$51,833.78; and such profit for the calendar year 1945 was in the amount of \$75,918.03.

y. This petitioner was entitled to a net operating loss carryover from the year 1942 to the year 1944 in the amount of \$22,886.25.

z. This petitioner was entitled to a net operating loss carryover from the year 1943 to the year 1945 in the amount of \$54,807.65.

aa. During each of the years 1944 and 1945, this petitioner paid properly salaries to its officers in the amount of \$36,000.00, or \$12,000.00 each to Ellis L. Stoneson, Henry Stoneson, and Albert Bernhard.

bb. In view of the fact that such officers were entirely responsible for the operations and success of this petitioner and the further fact that they personally guaranteed the loan made to this petitioner, such salaries were reasonable in all respects and are deductible in computing the net income of this taxpayer in both the calendar year 1944 and the calendar year 1945.

cc. The aggregate daily borrowed capital of this petitioner for the taxable year ended December 31, 1942, in the amount of \$40,096,510.01 should be divided by 310 days, the number of days in such taxable year, rather than 365 days, in determining the average daily borrowed capital of this petitioner for the taxable year ended December 31, 1942.

dd. The average daily borrowed capital of this petitioner for the taxable year ended December 31, 1942, was in the amount of \$129,343.58.

ee. In the event any of the adjustments to this petitioner's income for the years 1942, 1943, 1944, and 1945 determined by the Commissioner are sustained, such adjustments would result in additional California bank and corporation franchise taxes.

ff. Such additional California bank and corporation franchise taxes accrue as of the first day of the taxable year for which they are imposed.

gg. This petitioner, being on the accrual method of reporting income and expenses except as to the installment sales of residences, is entitled to deduct any additional California bank and corporation franchise taxes in the year in which such taxes accrue.

hh. If the Commissioner is correct as to the method of reporting this petitioner's profits from the sales in question, this petitioner suffered net operating losses in the years 1946 and 1947 in the respective amounts of \$33,982.45 and \$39,680.96.

ii. Such net operating losses constitute net operating loss deductions for the years 1944 and 1945 in the same amount, no adjustments under Section 122 being required.

jj. Such net operating loss deductions give rise to unused excess profits credit carrybacks from the years 1944 and 1945 in the respective amounts of \$6,141.19 and \$35,358.67, which carrybacks should be applied against this petitioner's excess profits tax net income for the years 1942 and 1943, respectively.

kk. This petitioner elected to report the following sales of real property on the installment basis under Section 44 of the Internal Revenue Code:

Year	Number of Sales	Sales Price	Cost	Profit to be Realized
1942.....	103	\$ 450,800.00	\$ 350,848.90	\$ 99,951.10
1943.....	605	2,714,500.00	2,014,011.65	700,488.35
Total....	708	\$3,165,300.00	\$2,364,860.55	\$800,439.45

ll. Due to an error in preparing its return for the year 1944 this petitioner reported therein the entire balance of the unrealized profit on installment sales of 105 houses which it had sold during the years 1942 and 1943. The actual balance of the unrealized profit on the sale of such 105 houses at December 31, 1944, amounted to \$75,833.18; and as the result of such error, profits reported during the year 1944 were overstated in the amount of \$75,833.18, and profits reported during the year 1945 were understated in the amount of \$5,685.02.

mm. The fair market value of each sales contract which the petitioner received upon the sale of each house sold during the years 1942 and 1943 (other than contracts with respect to houses sold in 1943 which were collected in full in that year) did not exceed 66 $\frac{2}{3}$ % of the face amount thereof at the date of sale and at all times during the year of sale.

nn. This petitioner did not elect to report the following sales of real property on the installment basis under Section 44 of the Internal Revenue Code:

Year	Number of Sales	Stated Contract Price	Cost	Profit to Be Realized in the Event Stated Contract Price Is Collected in Full
1942	15	\$ 65,800.00	\$ 51,094.50	\$14,705.50
1943	34	152,800.00	113,184.28	39,615.72
Total	49	\$218,600.00	\$164,278.78	\$54,321.22

oo. The profit or loss realized by the petitioner on the sale of each of the 49 houses described in the subparagraph 5(nn) above should be reported on the deferred payment method by treating the fair market value of each sales contract plus the amount of each down payment received as the consideration and by computing the profit or loss on each sale by comparing such aggregate consideration with the cost of each property sold.

pp. The loss sustained by the petitioner in the year 1942 on the sale of the 15 houses sold in such year described in subparagraph 5(nn) above was in the amount of \$6,594.51.

qq. The loss sustained by the petitioner in the year 1943 on the sale of the 34 houses sold in such year described in subparagraph 5(nn) above was in the amount of \$9,617.60.

rr. By reason of the fact that the fair market value of each sales contract which the petitioner received upon the sale of the houses listed in subparagraph 5(nn) above did not exceed 66 $\frac{2}{3}$ % of the face amount thereof at the date of said sale and at all times during the year of sale, the following income was realized by the petitioner during the years 1942, 1943, 1944, and 1945, with respect to collections on such contracts during such years:

Year of Collection	1942 Sales	1943 Sales	Total
1942	\$ 18.75		\$ 18.75
1943	2,381.11	\$ 1,455.97	3,837.08
1944	2,357.61	6,685.55	9,043.16
1945	685.46	7,341.70	8,027.16
Total	\$5,442.93	\$15,483.22	\$20,926.15

ss. The petitioner was not entitled to and did not elect to report the following sales of real property made during the year 1943 on the installment basis under Section 44 of the Internal Revenue Code inasmuch as the entire stated contract price of each such sale was collected during the year of sale:

Year	Number of Sales	Stated Contract Price	Cost	Profit
1943	5	\$22,050.00	\$16,644.73	\$5,405.27

tt. This petitioner was entitled to a net operating loss deduction for the year 1944 from the year 1942 in the amount of \$22,886.25.

uu. This petitioner was entitled to a net operating loss deduction for the year 1945 from the year 1943 in the amount of \$54,807.65.

Wherefore, the petitioner prays that this Court may hear the proceeding and:

(1) Determine that there are no deficiencies in income tax, declared value excess profits tax, and excess profits tax for the taxable year ended December 31, 1942; no deficiencies in income tax, declared value excess profits tax, and excess profits tax for the year ended December 31, 1943; no deficiencies in income tax, declared value excess profits tax, and excess profits tax for the year ended December 31, 1944; no deficiencies in income tax, declared value excess profits tax, and excess profits tax for the year ended December 31, 1945; that the petitioner has made overpayments of income tax

and declared value excess profits tax for the year ended December 31, 1944 in the respective amounts of \$25,507.49 and \$972.95; that such overpayments for the year 1944 were each made within three years prior to the execution of an agreement by both the Commissioner and the petitioner pursuant to Section 276(b) of the Internal Revenue Code of 1939, as amended, to extend beyond the time prescribed in Section 275 thereof the time within which the Commissioner might assess the tax for the year 1944; that such agreement by the Commissioner and the petitioner for the year 1944 pursuant to Section 276(b) of the Internal Revenue Code of 1939, as amended, was executed within three years from the date of filing of the petitioner's income and declared value excess profits tax return for the calendar year 1944; that such overpayments for the year 1944 should be refunded to the petitioner under Section 322(d) of the Internal Revenue Code of 1939, as amended, and Section 6512(b) of the Internal Revenue Code of 1954, together with interest thereon; that the petitioner has made an overpayment of income tax for the year ended December 31, 1945, in the amount of \$8,322.17; that such overpayment for the year 1945 was made within three years prior to the execution of an agreement by both the Commissioner and the petitioner pursuant to Section 276(b) of the Internal Revenue Code of 1939, as amended, to extend beyond the time prescribed in Section 275 thereof the time within which the Commissioner might assess the tax for the year 1945; that

such agreement by the Commissioner and the petitioner for the year 1945 pursuant to Section 276(b) of the Internal Revenue Code of 1939, as amended, was executed within three years from the date of filing of the petitioner's income tax return for the calendar year 1945; and that such overpayment for the year 1945 should be refunded to this petitioner under Section 322(d) of the Internal Revenue Code of 1939, as amended, and Section 6512(b) of the Internal Revenue Code of 1954, together with interest thereon;

(2) Determine that the average daily borrowed capital of this petitioner for the taxable year ended December 31, 1942, was in the amount of \$129,-343.58;

(3) Determine that this petitioner is entitled to deduct any additional California bank and corporation franchise taxes arising from adjustments in this taxpayer's income determined by the Commissioner in the years in which such taxes accrue;

(4) Determine that in the event the Commissioner is correct in his determination of the method by which the installment profits from the sales here in question should be reported, this petitioner is entitled to net operating loss deductions for the years 1944 and 1945 in the respective amounts of \$33,982.45 and \$39,680.96, and unused excess profits credit carrybacks applicable to the years 1942 and 1943 in the respective amounts of \$6,141.19 and \$35,358.67; and

(5) Grant such other relief, as in the opinion of the Court this case may warrant.

Respectfully submitted,

/s/ BERT F. RABINOWITZ,
Counsel for Petitioner.

/s/ SCOTT H. DUNHAM,
Certified Public Accountant
of Counsel.

Duly Verified.

[Endorsed]: T.C.U.S. Filed November 4, 1954.

[Title of Tax Court and Cause No. 42446.]

ANSWER TO AMENDED PETITION

Comes now the Commissioner of Internal Revenue, respondent above named, and for answer to the amended petition filed by the above-named petitioner admits and denies as follows:

1, 2, 3. Admits the allegations contained in paragraphs 1, 2 and 3 of the amended petition.

4 and 4-a to y, inclusive. Denies that the Commissioner erred in the determination of the deficiencies as alleged in paragraph 4 of the amended petition and subparagraphs a to y, inclusive, thereunder.

5-a to h, inclusive. Admits the allegations contained in subparagraphs a to h, inclusive, of paragraph 5 of the amended petition.

i. Denies the allegations contained in subpara-

graph i of paragraph 5 of the amended petition.

j and k. Admits the allegations contained in subparagraphs j and k of paragraph 5 of the amended petition.

l. Denies the allegations contained in subparagraph l of paragraph 5 of the amended petition.

m and n. Admits the allegations contained in subparagraphs m and n of paragraph 5 of the amended petition.

5-o. Denies the allegations contained in subparagraph o of paragraph 5 of the amended petition.

p. Admits the allegations contained in subparagraph p of paragraph 5 of the amended petition.

q to dd, inclusive. Denies the allegations contained in subparagraphs q to dd, inclusive, of paragraph 5 of the amended petition.

ee. For lack of knowledge or information sufficient to form a belief, denies the allegations contained in subparagraph ee of paragraph 5 of the amended petition.

ff and gg. Denies the allegations contained in subparagraphs ff and gg of paragraph 5 of the amended petition.

hh to jj, inclusive. For lack of knowledge or information sufficient to form a belief, denies the allegations contained in subparagraphs hh to jj, inclusive, of the amended petition.

kk to uu, inclusive. Denies the allegations contained in subparagraphs kk to uu, inclusive, of paragraph 5 of the amended petition.

6. Denies generally and specifically each and

every allegation in the amended petition not hereinbefore admitted, qualified or denied.

Wherefore, it is prayed that the Commissioner's determination be approved and the petitioner's appeal denied.

/s/ DANIEL A. TAYLOR,
Chief Counsel, Internal Revenue
Service.

Of Counsel: Melvin L. Sears, Regional Counsel;
T. M. Mather, Asst. Regional Counsel, Internal
Revenue Service.

[Endorsed]: T.C.U.S. Filed November 15, 1954.

In the Tax Court of the United States
Docket Nos. 42445-42446

THE STONECREST CORPORATION, THE
BROOKFIELD CORPORATION,
Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

TRANSCRIPT OF PROCEEDINGS

Courtroom 421, Appraisers Building, 630 Sansome Street, San Francisco, California, Thursday, November 4, 1954.

The above-entitled matter came on for hearing,

pursuant to notice to the parties, at 10:00 o'clock, a.m.

Before: Honorable Norman O. Tietjens, Judge, Presiding.

Appearances: Bert F. Rabinowitz, Esq., 602 Market Street, San Francisco, California, for the Petitioners. Scott H. Dunham, Esq., 510 Crocker Building, San Francisco, California, for the Petitioners. T. M. Mather, Esq., 870 Market Street, San Francisco, California, for the Respondent. [1]*

* * * * *

Mr. Mather: It may be stipulated that the compensation deduction in the Stonecrest case for officers' salary is allowable in the amount of \$14,400 for the years 1944 and '45. That is \$7,200 for each of the two officers for each of the two years, and in the Brookfield Corporation an allowance for each officer's salary of \$36,000 for the year 1944. That is \$12,000 apiece for each of three officers for the year 1944, and that will dispose of the salary issue.

May that be stipulated?

Mr. Rabinowitz: Yes. * * * * * [5]

Mr. Rabinowitz: As I have stated, before the Court at this time are the Petitions of two corporations, the Stonecrest Corporation, and the Brookfield Corporation.

Each of these corporations was formed shortly after Pearl Harbor, one in the early part of January, '42, one in the latter part of February, '42. Both were formed for the same function. There

* Page numbers appearing at top of page of original Reporter's Transcript of Record.

was in existence at that time a partnership known as Stoneson Brothers, of whom the partners were two brothers, Henry and Ellis Stoneson. They had been engaged in this area and elsewhere in the subdivision business for many years and were well known and had a reputation as competent builders.

Shortly before the outbreak of the war, and increasingly immediately afterwards, there was a great and an acute shortage [6] of low cost housing for war workers in the defense efforts. Representatives of the Government, particularly the War Production Board, came to these builders and urged upon them the necessity and desirability of their entering into the immediate construction in large numbers of low cost housing.

There were difficulties attendant to that type of operation not inherent in ordinary subdivision activities. First of all, the war was on; the duration and result were then unknown. There had been bombing along the coast here and there was—and this was a desirable point of attack for the enemy.

The purchasers would be people who had nothing but their jobs, and in most cases, or in many cases they were migratory workers who had been brought here from the Midwest to defense plants.

They would be called upon under the plan envisioned to make a nominal down payment, usually 100 or 150 dollars, and they would be given the opportunity of paying for the houses in small instalments over a long period of time, which was generally twenty-five years, and in some cases, in the first year, twenty years.

Those payments spread over that period were small, and the uncertainty as to whether or not they would remain to pay their purchase price or whether they would disperse and scatter at the end of the war was an intangible, a variable, [7] which could not be computed on any scientific basis.

In addition, as a part of the program, to induce these and other builders to engage in this activity, the Federal Housing Administration had made money available through Title 6 loans by which the builder would borrow from a bank. In this particular case, and in every case, it was the San Francisco Bank here. They would borrow money on notes signed by the Petitioner, secured by a deed of trust on the property, and in each such case the loan was approximately 90 per cent of the selling price.

The bank was protected in that its loan was insured by the Federal Housing Administration, but the builder, the Petitioners in these cases, had to sign notes secured by deeds of trust, and were not protected.

The Federal Housing Administration or no one guaranteed that the purchasers would make their payments nor was there any provision to relieve the sellers from their primary and continuous liability on the notes in the event the purchasers did not make their payments.

That is a general statement of the origin of this, of these two Petitions. [8]

* * * * *

We believe that insofar as the regulations relat-

ing to Section 44 are concerned, which go further than the Code, and which state—and I don't wish to argue the law, but I merely wish to orient and focus our position—which state: "In the sale of mortgaged property the amount of mortgage, whether the property is merely taken subject to the mortgage or whether the mortgage is assumed by the purchaser, shall be included as part of the selling price, but the amount of the mortgage to the extent it does not exceed the basis of the inventory of the property sold shall not be considered as a part of the initial payment or of the total price as those terms are used," et cetera.

We believe with respect to those regulations that in the first place they do not apply to the facts of this case. It is stipulated that no mortgage was assumed. it is our position that in no case did the purchaser agree to take the property subject to a mortgage.

It is our position that, and it is so stipulated, that in every case when the purchaser paid the purchase price in full, he was entitled to a deed free and clear of the encumbrance, [20] and that "subject to" means that when the purchaser has completed everything he is required to do under his contract and has deeded the property to the purchaser and the purchaser has paid the seller everything he is required to pay the seller, the purchaser cannot complain if there is at that time an encumbrance or mortgage subsisting against the property, because he has agreed to take the property subject to the mortgage, and in our case it is

our position that no purchaser has so agreed, and that if any purchaser who has paid the purchase price cannot be compelled to take a deed with any mortgage subsisting against the property.

It is our further position that if it be ruled that the regulations do apply to our situation and to the facts in this case, to that extent the regulations are in conflict with the Code because, one, it does not take into consideration all payments actually received during the year, it includes the substantial portion of the payments, and, in the second place, it does not include, as the Commissioner has implied, the moneys not received from the purchaser but from a third party. [21]

* * * * *

Mr. Mather: If your Honor please, those are substantially the facts in these cases.

Our principal dispute is in the contract price and the initial payment. We have computed the tax in strict accordance with the Commissioner's regulations in these cases, and those regulations have been held to be valid by the United States Supreme Court.

Now, the difference arises because the Petitioners treat as the selling price the contract price. In other words, he says the selling price and the contract price are the same. The Commissioner says that the selling price is what the property was sold for, but the contract price is the selling price less mortgages limited to the cost of the property sold, and in each instance the mortgage exceeded the cost of the property sold, and the difference

between the mortgage and the cost was included in the initial payment. [22]

So, we have contract price and initial payment, in which we disagree with the taxpayers in these cases, and that is primarily the—our dispute here. Of course, we have a dispute that this property was not sold subject to a mortgage.

Well, I think the Supreme Court of the United States has disposed of that in the Crane case.

The Court: Beulah Crane?

Mr. Mather: I think so.

If your Honor please, in every instance in these cases there was a mortgage on the property when the property was sold to the purchaser. Now, the mortgage still exists as long as that contract was in effect until the contract was closed; then the mortgage was satisfied.

Now, it is our position that these properties were taken subject to the mortgages.

The Court: Call your witness.

Mr. Rabinowitz: Mr. Stoneson, will you take the stand.

HENRY STONESON

was called as a witness in his own behalf, and, having been first duly affirmed, was examined and testified as follows:

The Clerk: Will you state your name, please?

The Witness: Henry Stoneson.

Direct Examination [23]

* * * * *

Q. (By Mr. Rabinowitz): You heard my statement as to the general war conditions and the cir-

(Testimony of Henry Stoneson.)

cumstances surrounding the corporations, these two corporations, and it was substantially correct?

A. It was, sir.

Mr. Rabinowitz: It will shorten the examination. Thank you, your Honor.

Q. (By Mr. Rabinowitz): With respect to the 12 to 13 hundred sales involved in both these cases, generally speaking, was there any problem of collection and delinquency in payment of the instalments?

A. Well, yes. At no time did the payments come in too promptly. It required prodding on our part by telephone, by letter, and the usual collection methods, and at all times we had substantial amounts in delinquent form.

Q. Now, Mr. Stoneson, with respect to Brookfield Corporation, do you hold any office with that company?

A. Yes.

Q. What is it? A. I am the President.

Q. And you have been since its incorporation?

A. I have been since its incorporation.

Q. With respect to the fifteen sales in 1942 and the thirty-four sales in 1943, which Brookfield did not elect to report on the instalment basis, did Brookfield realize in each [24] of the years as profit the difference between the selling price and the cost of the homes sold?

A. No, they did not realize a profit.

Q. Why not?

A. Well, we had—these purchasers were in on a very low down payment, the contract extending

(Testimony of Henry Stoneson.)

over a long period of years, as much as twenty-five years, I believe, in this particular case, very low rate of interest.

These mortgages were not marketable, could not be realized, and in addition there was a loan against the property.

Q. When you say "mortgages," are you referring to the contracts, sir?

A. The contracts I was referring to.

Q. At the time the contract was entered into, what had you received from the purchaser?

A. A very nominal amount, running from 100 to 150 dollars, I would say, generally.

Q. Anything else? A. That is all.

Q. In your opinion, what was the value of the contract, the purchaser's agreement to pay the balance of the purchase price at that time?

A. Well, I couldn't give it in value.

Mr. Rabinowitz: That is all. [25]

One further question.

Q. (By Mr. Rabinowitz): Would your opinion as to the value of that contract—we have been speaking of the fifteen and thirty-four cases only—in which no election had been made to report on the instalment basis—would your opinion as to the value of the purchaser's contract be the same with respect to the contract on which you had elected to report on the instalment basis?

A. I believe the contract would be the same value, yes.

Q. And that value was what?

(Testimony of Henry Stoneson.)

A. No value.

Mr. Rabinowitz: That is all.

Cross Examination

Q. (By Mr. Mather): Mr. Stoneson, did any of these contracts default? A. Did they default?

Q. Yes.

A. Give up their houses, is that what you are talking about?

Q. Yes.

A. I believe there were some that defaulted.

Q. Well,—

A. Although we wouldn't know about them; that is, they would provide their own purchasers, their resales. [26]

Q. Well, they didn't default to you?

A. No.

Q. None of these contracts defaulted to you, did they? A. No.

Q. They were carried out in accordance with their terms?

A. Yes. It took considerable prodding to collect the payments.

Q. I am not asking you about that, I am asking did they carry their contracts out in accordance with their terms, or did they not?

A. They were delinquent; outside of that, they carried out their terms.

Q. Yes. You didn't have to take their property back? A. No.

(Testimony of Henry Stoneson.)

Q. And this was a rising market at all times after the sale, was it not?

A. Not at all times, no.

Q. Well, could you buy any of those properties today at the price at which they were sold?

A. Today, no. [27]

* * * * *

Q. (By Mr. Mather): Mr. Stoneson, at the end of twenty-seven months on these contracts the balance that remained due was the balance owing on the mortgage, was it not? A. No, it wasn't.

Q. Well, what was the balance that was due at the end of twenty-seven months?

A. The balance due on our contracts?

Q. Yes.

A. It was the balance due—owing us on that contract, whatever the figure might be. It had no relation to any loan that we had on the property.

Q. None whatever? A. None whatever.

Q. Well, let's take a typical sale; a typical sale for these properties was for \$4500, was it not?

A. That's right.

Q. And your down payment, say, was \$150.00?

A. Yes, sir. [28]

Q. And the mortgage on the property was \$4,000; is that correct?

A. Let's see. I assume that would be right, yes.

Q. So the selling price was \$500 in excess of the mortgage on the property at the time you sold it? A. Right.

Q. Now, that down payment of \$150 and the

(Testimony of Henry Stoneson.)

remaining \$350 in excess of the mortgage was amortized over a period of twenty-seven months, was it not? A. Not necessarily.

Q. Well, how was it paid?

Mr. Rabinowitz: Mr. Mather, may I, without trying to interrupt your questioning,—I assume you mean when twenty-seven payments were made, not the twenty-seven months.

Mr. Mather: Well, the payments were made monthly over twenty-seven months.

Mr. Rabinowitz: Well, if your Honor please, we will assume that they were made.

Mr. Mather: Well, I will ask him. He said the contracts weren't in default.

The Witness: I said they were in a delinquent state from time to time.

Mr. Mather: Yes.

Q. (By Mr. Mather): At the end of twenty-seven months, this would have [29] been paid if the contracts had been carried out in accordance with the terms, would it not?

A. I believe that is the way it figures out.

Q. Then the remaining balance on your contract of sale would only be what remained due on the mortgage, would it not?

A. No. Pardon me. No, the due dates, or the payment dates on the mortgages that we had made through the San Francisco Bank and the contractors' contracts between our purchasers and ourselves were not identical. They would vary. So there

(Testimony of Henry Stoneson.)

would be a variance in the amounts of the two that you are talking about.

Q. Well, what would the variance be?

A. Depending on the variance in the due dates of the two types of payments.

Q. Assuming that the payments were \$40.00 a month, there would be a \$40.00 difference?

A. Well, I couldn't answer that; that is a little too much arithmetic for me to answer.

Q. Well, at the expiration of the twenty-seven month period, the loan on the property had been diminished by payments that had been made by the purchaser, had they not?

A. When you say "loan," which loan are you referring to?

Q. Well, let's go back to the start. [30]

You entered into a contract in these properties with the sellers, did you not? A. Yes.

Q. And all you had was a contract?

A. Was a contract, that's right, sir.

Q. And the purchaser made payments in accordance with the terms of that contract, did he not? A. Right.

Q. And at the end of twenty-seven months he had made the payments that were required if the contract wasn't in default? A. Right.

Q. And those payments were applied to amortize the \$500 that I spoke of, in addition to the mortgage, so that all that remained at the expiration of that period for payment was the balance remaining on the mortgage; is that true?

(Testimony of Henry Stoneson.)

A. The payments on the mortgage would vary from the payments on the contract; that is, the amount in the balance due, due to the fact we had different starting dates on the two different documents. We made our bank payments promptly the day that we were required to in accordance with the terms in that note and deed of trust, and in return we collected from our purchaser according to the terms of our contract.

Q. Let me show you this schedule, Mr. Stoneson. Now, a contract of sale on a typical property was \$4,500, was it not? [31] A. Yes.

Q. And the down payment was \$150?

A. That's right.

Q. And the first mortgage loan was \$4,000?

A. Correct.

Q. The balance of the first payment—or, the balance of the first period was \$350?

A. That was the—that is what it says there, correct.

Q. Well, is that correct?

A. That is correct. That is the way the contract was set up.

Q. Yes. So under these contracts there was a monthly payment of \$45.00, and \$50.00, during the first period, was there not? A. Yes, sir.

Q. So at the end of twenty-seven months this \$350 balance had been paid off and the mortgage had been reduced to \$3,992.76, had it not?

Mr. Rabinowitz: Pardon me. I am not following

(Testimony of Henry Stoneson.)

you. Are you implying that the purchaser was paying the mortgage to the bank, sir?

Mr. Mather: I am just asking him what happened on these contracts.

Mr. Rabinowitz: Well, I think your question is confusing. [32]

Mr. Mather: Well, maybe Mr. Stoneson doesn't understand it, I don't know.

A. Well, I do understand it, Mr. Mather, yes. We made the payments on our bank loan. Let's call it a bank loan so we can distinguish it from our contract.

Q. (By Mr. Mather): Yes.

A. We made that separate from our contract collections.

Q. Yes.

A. On the due dates we paid them.

Q. So the balance due on your mortgage to the bank at the expiration of twenty-seven months was \$3,992.76?

A. Well, you have a case there where I couldn't—I don't know about this. I don't know where it came from.

Q. Well, isn't that in substance what happened in all of these contracts?

A. Well, not that—our contract purchaser was not paying on our bank loan.

Q. I am not asking that. I am assuming and the contract provided for monthly payments for the first twenty-seven months of \$45.50.

A. Correct.

(Testimony of Henry Stoneson.)

The Court: That is, from the purchaser of the house to the seller of the house?

Mr. Mather: That is correct. [33]

Q. (By Mr. Mather): Is it not?

A. That is correct.

Q. And you assumed that those payments had been made to you in accordance with the terms of that contract for the period of twenty - seven months? A. Yes.

Q. Your books would show that this \$350 had been paid and that there remained due and owing on the \$4,000 mortgage, \$3,992.76, would it not?

A. I believe that would be correct.

Q. Yes. Now, at that time, that mortgage was insured by an F.H.A. loan, was it not, to the bank?

A. It was insured to the bank only.

Q. Yes, so the bank was actually protected only on that loan by an F.H.A. loan for that balance?

The Court: You mean by F.H.A. insurance?

Mr. Mather: That is correct.

A. They had an F.H.A. insurance policy on the loan.

Q. (By Mr. Mather): Well, that loan was guaranteed by F.H.A., was it not, during that period, at that time? A. I believe that is correct.

Q. Yes. And at the time these contracts were entered into, Mr. Stoneson, the purchaser furnished—did he furnish [34] you with a financial statement?

A. I don't recall the details of that, Mr. Mather.

(Testimony of Henry Stoneson.)

Q. Did he furnish the F.H.A. with a financial statement? A. I don't recall.

Q. You don't know?

A. Just what was said.

Q. In your opinion, would these contracts that were executed by the purchaser have any value irrespective of who the purchaser might be?

A. I don't think they would have any value.

Q. Assume that the San Francisco Bank was the purchaser, the contract would have no value?

A. We were in an all-out war at the time these houses were built, and I don't think that anybody could predict what would happen in the next twenty-four hours.

Q. Is it your testimony that irrespective of the financial responsibility of the purchaser, the contract had no value? A. Correct.

Q. That is correct? A. Correct.

Mr. Mather: That is all.

Redirect Examination

Q. (By Mr. Rabinowitz): Mr. Stoneson, to clear up one point only, if—and [35] it is stipulated in the facts—the seller had to pay the bank on the loan, usually on the first day of the fourth month or first day of the sixth month after the loan was made, and if, as is stipulated in the facts, the purchaser had to pay the instalments to you, usually the month after his contract was signed or the month after the home was completed, is it not a fact that unless the date of the first payment by

(Testimony of Henry Stoneson.)

the seller on its loan to the bank and the date of the first payment by the purchaser on his instalment to the company coincided, and if it is not the further fact that each of the next twenty-seven payments was made by each punctually as required, is it not a fact that there would never be a correspondence between the amount due the seller from the buyer and the amount due from the seller to the bank? A. That is correct. [36]

* * * * *

HARRY SMISSAERT

was called as a witness by and on behalf of the Petitioners, and, having been first duly affirmed, was examined and testified as follows:

The Clerk: Will you state your name, please?

The Witness: Harry Smissaert.

Direct Examination

Q. (By Mr. Rabinowitz): Mr. Smissaert, what is your occupation? A. Real estate broker.

Q. And where is your headquarters?

A. Where is my office?

Q. Yes. A. 64 Sutter Street.

Q. How long have you been engaged in business in this community and area?

A. About forty to forty-five years.

Q. Are you connected with any firm?

A. Yes, Thomson, Kernan & Stevens. [37]

Q. That is a corporation?

A. A corporation.

Q. And you are its President?

(Testimony of Harry Smissaert.)

A. Its President.

Q. How long has that firm been in business in this area? A. Since 1886.

Q. What type of activity does the firm engage in?

A. General real estate, property management, sales, loans, and anything in conjunction with real estate business.

Q. In what capacities have you acted, specifically? Do you act as a principal for your own account or do you act as a broker?

A. Well, in the office I act as a broker. I buy and sell property occasionally outside.

Q. Have you dealt in mortgages? A. Yes.

Q. And have you dealt in loans? A. Yes.

Q. Have you dealt in contracts of sale?

A. Yes.

Q. Are you familiar in that field insofar as banks, insurance companies and financing institutes are concerned? A. Yes.

Q. Now, Mr. Smissaert, assuming that a company sold [38] single-dwelling houses for \$4450 or \$4500 under contracts of sale calling for a small down payment of a hundred or a hundred and fifty dollars, the balance to be paid in monthly instalments over a period of twenty-five years, or in some cases over a period of twenty years; assume that there is a uniform level of instalments for the first twenty-seven months, and assume that there is a uniform level of instalments for the remaining life of the respective contracts at a lower level; assume

(Testimony of Harry Smissaert.)

that for the first level of payment the contract bears interest at the rate of 6 percent in some cases and in some cases bears interest at the rate of 6 percent on so much of the first instalments which are at a higher rate than the second set of instalments, and 4½ percent on the remainder, and assuming that in all cases after the twenty-seven payments have been made the rate of interest is uniformly 4½% percent, and assuming that in every case at the time the contract of sale is entered into there is subsisting against the property a deed of trust to the San Francisco Bank, securing a loan in the approximate amount of 90 percent of the sales price; assume further that the purchaser was a worker in an essential war industry; what, in your opinion, was the fair market value of that contract in the year 1942?

A. Well, I would feel that the contract would be very, very difficult to dispose of because of the fact that the interest is lower than the loan people would ask for, and I [39] wouldn't know how to put a value on that.

Q. In your opinion, was there a market value for such paper in 1942? I am confining myself now to the year '42.

A. I wouldn't think so.

Q. In your opinion, what is the fair market value for a similar contract under identical factual situation in each of the years 1942, 1943, 1944, and 1945?

A. Well, in my opinion, the same condition would prevail in all of those years.

Q. And, in your opinion, would your opinion be

(Testimony of Harry Smissaert.)

affected whether or not the house was technically in San Francisco, as in the case of Stonecrest, or in Alameda County, as in the case of Brookfield?

A. Well, very much the same conditions would prevail, I believe.

Mr. Rabinowitz: That is all.

Cross Examination [40]

* * * * *

A. Well, at that time, war workers were very uncertain as to how long they would be able to continue to make their payments, and no one knew anything about it.

Q. (By Mr. Mather): Well, I assume there were differences in war workers. Some war workers might have some financial responsibility, whereas others——

A. Well, I am only referring to what you would call the general trend.

Q. Yes.

A. If I am correctly informed, the majority of these houses or all of them were sold to war workers. [41]

Mr. Rabinowitz: They were built for war workers.

The Court: I think that is one of the assumed facts in your question. [42]

* * * * *

Redirect Examination

Q. (By Mr. Rabinowitz): Mr. Smissaert, I did not include in my hypothetical question the fact

(Testimony of Harry Smissaert.)

that there is involved not a single contract for the purchase of what we are trying to arrive at at this time but a volume of contracts running into the millions, and would your answer be affected either way with that additional fact in the question?

A. Yes.

Q. How?

A. Well, the larger amount would be more difficult to dispose of, or practically impossible to dispose of, where an occasional contract might be disposed of at some figure.

Mr. Rabinowitz: That is all. [44]

* * * * *

Further Redirect Examination

Q. (By Mr. Rabinowitz): Mr. Smissaert, let's assume that you had a financially responsible name on the purchaser, would the fact that the contract ran over twenty-five years, involve for the most part a rate of interest of 4½ percent, and that there was subsisting against the property a mortgage to the extent of approximately 90 percent, have any effect on the value of that paper, even though signed by the Old Lady of Threadneedle Street?

A. Well, it would have, naturally, some effect. It couldn't help itself.

Q. What discount, if any, would be required because of the terms of the paper and the fact of the 90 percent mortgage on the property, regardless of who was the—what was the financial responsibility of the signer?

(Testimony of Harry Smissaert.)

A. I don't think I quite understand your question. I would like to have it made a little clearer.

Q. Let's assume that the signer of the note was financially responsible in the fullest sense that you can think of [46] that term. Would the fact that the contract ran for twenty-five years, that the rate of interest for the most part was 4½ percent, and that there was subsisting against the property a mortgage to the extent of 90 percent of the sales price, would that require any discount of the paper, or would it not? A. Yes.

Q. In your opinion, assuming the financial irreproachable reputation of the maker, what type of discount would be required because of these factual situations?

A. Well, it would be required to bring it up to a rate of interest that somebody, what you would call a tough buyer, would be willing to accept.

Q. In your opinion, what is the minimum discount that would have been required, assuming a financially responsible person, and assuming no war?

A. Well, I would say from 50 to 60 percent would be the minimum.

Mr. Rabinowitz: That is all. [47]

* * * * *

DAVID GREEN

was called as a witness by and on behalf of the Petitioners, and, having been first duly affirmed, was examined and testified as follows:

Mr. Mather: We can do that later.

The Clerk: What is your name?

The Witness: David Green.

Direct Examination

Q. (By Mr. Rabinowitz): Mr. Green, what is your business? [49]

A. I am an executive for a real estate loan corporation.

Q. What is the name of the company?

A. The EMCO Investment Company, E-M-C-O Investment Company.

Q. Where are its offices located?

A. 544 Market Street.

Q. Here in San Francisco?

A. San Francisco.

Q. How long has that company been in operation?

A. That company has been in existence since the early 20's.

Q. And did I understand you to say you were the Executive Officer of the company?

A. I am the General Manager, also Assistant Secretary of the Corporation.

Q. And what is the business, what are the operations of your company?

A. Our operations are making real estate loans and buying deeds of trust and contracts of sale.

(Testimony of David Green.)

Q. And, with becoming modesty, sir, what volume is your corporation engaged in this business?

A. Well, I would say offhand it runs from 2 to 3 million dollars.

Q. I see, and that has been the business of this [50] corporation for many years?

A. Yes, sir.

Q. You have dealt with first and second mortgages?

A. Both first and second mortgages.

Q. You have dealt with loans?

A. Yes, sir.

Q. You have dealt with lending organizations, insurance companies, banks, building and loan?

A. Yes.

Q. And you have dealt with paper of all sorts relating to real property? A. Yes, sir.

Q. You have been in court, but I will repeat the question.

Assuming that Stonecrest Corporation or the Brookfield Corporation under a contract of sale sold a single-dwelling house for approximately \$4450, the contract of sale calling for a down payment of a hundred or a hundred and fifty dollars, and providing for the payment of the purchase price, in some cases over a period of twenty-five years, and in other cases over a period of twenty years; providing further for a uniform level of monthly instalments to be paid for the first twenty-seven instalments, and for a uniform but lower level of payments for the remaining life of the con-

(Testimony of David Green.)

tract, which would be the difference between the twenty-seven months [51] and the — the twenty years, or the twenty-seven months and the twenty-five years, as the case may be; assuming further that the payments during the first twenty-seven instalments bore interest at the rate of 6 per cent, or 6 per cent on just a part and $4\frac{1}{2}$ per cent on the remaining part, and in all cases bore uniform interest of $4\frac{1}{2}$ per cent for all payments after the twenty-seven payments; and assuming that in every case at the time that the contract of sale was entered into there subsisted against the property covered by the contract a first deed of trust to the San Francisco Bank, securing a loan in approximately 90 per cent of the entire selling price, what in your opinion was the fair market value of that contract in the year 1943, and I will add the further assumption that in each case the purchaser was required by law and was employed in an essential industry.

A. Well, judging strictly from my own experience and from our *modus operandi*, that as far as our concern is concerned there would be no value to that contract of sale.

Q. Was there, in your opinion—now, eliminating just your own concern—was there a fair market value so far as you know for such a contract in the year 1952? A. My answer would be no.

Q. Would your answer be any different in the years '42, '43, '44 and '45, given the same facts?

A. No. The general business conditions during those years are approximately the same. [52]

(Testimony of David Green.)

Q. Would your answer be any different whether or not the home in question was located in San Francisco or across the Bay in Alameda?

A. No, the value is approximately the same in both communities.

Mr. Rabinowitz: That is all. [53]

* * * * *

Redirect Examination * * * * *

Q. (By Mr. Rabinowitz): —if there was a 90 percent loan against the property, would that affect your discount?

A. Oh, that definitely would, there is no question about that.

Q. Well now, you answered my previous question, "It would make no difference." Do you wish to change your answer? How would it affect it?

A. Well, definitely, a 90 percent loan against a piece of property, that would have a definite effect on that.

Q. What effect would it have?

A. The effect is that there is already a 90 percent loan against it; in other words, the value is completely gone.

Q. What effect would it have on the marketable or market value of the property?

A. There is no market value on that piece of property. Like that \$5,000 piece of property, if that particular loan defaulted, if that particular loan defaulted I am immediately [59] involved with about \$250 attorney fees, forgetting everything else.

* * * * *

(Testimony of David Green.)

A. * * * We have the loss of interest, the rehabilitation of that piece of property and the deterioration of that property over that period; in other words, that thousand dollars just disappears, just disappears.

Q. In your opinion, in that case there is no market value?

A. It has no market value at all.

Mr. Rabinowitz: That is all. [60]

* * * * *

[Endorsed]: T.C.U.S. Filed Nov. 23, 1954.

[Title of Tax Court and Cause.]

PETITIONERS' OPENING BRIEF

Points Relied On

* * * * *

(d) If the Regulation were interpreted as contended for by the Commissioner, a part of each installment payment actually received, or entire such installments, would be excluded. This is contrary to the specific direction of Sec. 44, which requires that a uniform percentage of each installment payment actually received, shall be recognized; and no good reason exists, for departing from this plain language.

The Commissioner's interpretation would likewise require that the excess of each mortgage over the vendor's base, be counted as part of the "initial

payment". This, too, is contrary to the specific mandate of Sec. 44, which limits "initial payments" to "payments received in cash or property other than evidences of indebtedness of the purchaser".

The Regulation, if given the interpretation contended for by the Commissioner, would, for the above reasons, be directly at variance with Sec. 44, and consequently invalid.

* * * * *

[Endorsed]: T.C.U.S. Filed Feb. 28, 1955.

[Title of Tax Court and Cause No. 42,446.]

STIPULATION OF FACTS

Supplemental Stipulation

It is hereby stipulated and agreed between the Commissioner of Internal Revenue and the above entitled petitioner, by their respective undersigned attorneys:

1. A written Stipulation of Facts (hereinafter referred to as the "Original Stipulation") was entered into between the parties hereto and filed at the trial of the above entitled case at San Francisco, California, on November 4, 1954.

2. Said Original Stipulation specified, in part, that petitioner in the year 1942 sold 15 houses and in the year 1943 sold 34 houses under contracts on which the petitioner elected to report, and reported, and was entitled to report, profits or losses on such sales of real estate as deferred payment sales not on

the installment basis. Petitioner reported in its income tax returns for the years 1942 and 1943 that it realized profits on such sales in the respective amounts of \$14,705.50 and \$39,615.72, which sums represented the entire profit to be realized when the purchase price had been paid in full.

3. In reporting the profit realized during the years 1942 and 1943, petitioner treated deferred payment contracts as having a fair market value of 100% of the face amount of such contracts. The deferred payment contracts which petitioner received in connection with the sale of the 15 houses sold on the deferred payment plan in 1942 and the 34 houses sold on the deferred payment plan in 1943 did not have a fair market value in excess of $66\frac{2}{3}\%$ of the face value thereof at the respective dates of sale.

4. Paragraph 12 of the Original Stipulation introduced at the trial of this action sets forth the agreed income realized by petitioner in the event this Court should hold against the petitioner and in favor of the respondent on the main issue of the case, to wit, the proper method of determining the realized profits on the contracts on which petitioner elected to report its profit on the installment basis. Said paragraph inadvertently provided,

“* * * then it is stipulated and agreed that the following schedule reflects the correct determination of income petitioner realized on installment and all other sales of real estate for each of the years 1942 to 1945 * * *” (Under-scoring added.)

The said schedule in Paragraph 12 of the Original Stipulation filed at the trial hereof reflects income realized by petitioner as if all petitioner's sales were made and reported for income tax purposes on the installment basis. In view of the present Stipulation that 49 of the sales included therein were not made on the installment basis, but in fact were made and reported for income tax purposes on the deferred payment basis, and in further view of the present Stipulation that the contracts of sale had a fair market value of only 66 $\frac{2}{3}$ % of their face amount, it is hereby further stipulated that said schedule in Paragraph 12 of the Original Stipulation filed at the trial shall be adjusted under Rule 50 so that it will correctly reflect the profits realized or losses sustained during each of the years 1942 to 1945, inclusive, with respect to the said 49 deferred payment sales.

Dated April 8, 1955.

/s/ R. R. HUTZOG,
Attorney for Commissioner of
Internal Revenue.

Dated April 8, 1955.

/s/ BERT F. RABINOWITZ,
Counsel for Petitioner.

Dated April 8, 1955.

/s/ SCOTT H. DUNHAM,
Certified Public Accountant,
Of Counsel.

[Endorsed]: T.C.U.S. Filed Apr. 11, 1955.

The Tax Court of the United States

24 T. C. No. 75

The Stonecrest Corporation, Petitioner, v. Commissioner of Internal Revenue, Respondent.

The Brookfield Corporation, Petitioner, v. Commissioner of Internal Revenue, Respondent.

Docket Nos. 42445, 42446. Filed July 14, 1955.

FINDINGS OF FACT AND OPINION

Installment Sales of Mortgaged Real Property Under Section 44 (b), I.R.C. of 1939.—Under terms of agreement of sale, buyer from petitioners of real property that had a mortgage on it did not assume the mortgage or take the property subject to the mortgage within the meaning of respondent's regulation relating to the determination of the percentage of taxable income to be returned on the installment basis.

Bert F. Rabinowitz, Esq., and Scott H. Dunham, C.P.A., for the petitioners.

T. M. Mather, Esq., for the respondent.

The Commissioner determined the following deficiencies against the petitioners:

Stonecrest Corporation:

Year	Income Tax	Declared Value Excess	
		Profits Tax	Excess Profits Tax
1942	\$ 3,766.08	\$29,678.26	\$158,359.56
1943		3,883.19	42,331.60
1945	12,176.55	414.62	8,115.87

The Brookfield Corporation:

Year	Income Tax	Declared Value Excess	
		Profits Tax	Excess Profits Tax
1942	\$ 2,116.32	\$ 6,514.86	\$ 37,918.40
1943	21,803.05	61,998.28	309,345.48
1944	1,679.71	3,287.51	19,278.31
1945	17,686.81	1,061.54	—

Upon motion of petitioners the cases have been consolidated for hearing and decision.

The question we have to decide concerns the amount of income to be reported by petitioners on the installment basis from the sale of mortgaged real property.

Most of the facts have been stipulated. Since the methods of operation of both petitioners were essentially the same, to the extent possible circumstances relating only to petitioner Stonecrest's operations will be stated in detail in our findings of fact and are to be understood as being identical to the circumstances of Brookfield's operations. Stonecrest will hereafter be called petitioner.

Findings of Fact

The stipulated facts are found accordingly, and are incorporated herein by this reference.

Petitioner is a California corporation with its principal office in San Francisco. Its income and excess profits tax returns for the years in question, 1942 through 1945, were filed with the collector of internal revenue for the first district of California. Insofar as the sales in question here, petitioner

kept its books and records and reported its profits on the installment basis.

During the taxable years petitioner's principal business was the construction of housing developments consisting of individual residences.

Petitioner's method of operation was as follows: It first purchased land from a partnership whose members were also shareholders of petitioner. The partnership had previously purchased an unimproved tract of land, the purchase price being financed partially by partnership funds but principally by a loan from a San Francisco bank. The loan was evidenced by a promissory note executed by the partners and their wives and secured by a blanket deed of trust covering the entire tract in favor of the lending bank. Petitioner then submitted its plans for building individual residences to the Federal Housing Administration to obtain the latter's commitment to insure loans on the property. Having obtained the general approval of the F.H.A., petitioner applied to a bank for loans for the construction of individual housing units, which were made after an F.H.A. commitment to insure each loan had been received. In connection with the loan petitioner executed a deed of trust note and a deed of trust on each unit, which was recorded by the bank. The original blanket deed of trust on the entire tract was released on individual lots as loans for the construction of housing units on these lots were made. An agreed release price was paid to the mortgagee out of the construction loan. When all of the lots in the subdivisions developed by peti-

tioner were subject to individual deeds of trust, the stockholders of petitioner and their wives, who had personally signed the original note and blanket deed of trust, were released from their personal liability thereon, so that only the petitioner was liable to the lending bank on the deed of trust notes with respect to houses covered by installment contracts that had not been closed. In the case of Brookfield, the shareholders and their wives were required personally to guarantee each individual note secured by individual deeds of trust on the houses constructed and sold, and they were never relieved of their secondary liability on such loans until the loans were either paid in full or, as in a few cases not in issue here, assumed by the purchasers.

Among the documents executed by a purchaser from petitioner was a "Mortgagor's Statement" contained in a "Mortgagee's Application For Mortgage Insurance," which was filed by the lending bank with the F.H.A. together with a "Consent to Substitution of Mortgagors Under Title VI." The Mortgagor's Statement contained information regarding the financial status of the mortgagor for the guidance of the F.H.A. in determining whether to insure a mortgage loan on the property being purchased by the mortgagor. When a house was ready for occupancy, a "Uniform Agreement of Sale" was executed by the purchaser and petitioner, and the purchaser also executed that portion of the Consent to Substitution of Mortgagors under Title VI. designated "Purchaser's Certificate," which acknowledged his receipt of the property and con-

tained his agreement to pay the mortgage debt. The purchaser also executed a guarantee to the mortgagee bank of petitioner's obligation on the mortgage loan, and a quitclaim deed to the property in favor of petitioner. Neither the bank nor the F.H.A. retained an executed copy of the Purchaser's Certificate or the purchaser's guarantee of the loan made to petitioner.

The Uniform Agreement of Sale provided in part as follows:

That said Seller hereby agrees to sell and convey to the Purchaser, and Purchaser hereby agrees to purchase, that certain real property situated in the City and County of San Francisco, State of California, described as follows:

[description of property]

The purchase price for said property which Purchaser agrees to pay and Seller agrees to accept therefor, is the sum of \$4,450.00, payable as follows:

\$100.00 in cash, receipt of which is hereby acknowledged;

\$47.40 per month payable on the 1st day of each and every month hereafter for a period of 27 months, (first period), and thereafter \$33.50 per month, payable on same day of each month until purchase price and interest are paid in full (second period). Seller heretofore executed a promissory note to The San Francisco Bank in the principal sum of \$4,000.00, and a trust deed conveying said real property to E. T. Kruse and Parker S. Mad-dux, as trustees, to secure the payment of said note

(pursuant to the provisions of Title 6, F.H.A.) Reference is hereby made to the record of said trust deed in the office of the Recorder of the City and County of San Francisco, and the same is hereby incorporated herein. Said installments payable during the first and second periods include interest and charges at the rate and as provided for in said note and trust deed upon that portion of purchase price represented thereby. Installments payable during the first period include interest at the rate of 6% per annum on balance of purchase price. Said installments shall be applied by the Seller to the requirements of said F.H.A. loan and to the payment of balance of purchase price and interest thereon. Monthly installments payable pursuant to said F.H.A. loan are subject to increase or decrease as provided for in said note and trust deed representing the same, and in the event of such increase or decrease, installments payable hereunder shall be increased or decreased accordingly. Seller shall deliver and Purchaser shall accept conveyance of said property upon first period installments being paid in full at any time thereafter within five years therefrom at option of Seller, and Purchaser shall thereupon assume the performance of Seller's unperformed obligations under the terms of said note and trust deed, and Purchaser hereby consents to Seller being then released therefrom. For this purpose, Purchaser executes an assumption concurrently herewith, delivers the same to Seller, and the Seller is authorized to deliver said assumption to The San Francisco Bank upon delivery of said

conveyance. Thereafter balance of purchase price shall consist of monthly payments required by said note and trust deed provided in the event Seller cannot secure said release of liability from said note and trust deed, Seller may withhold delivery of conveyance and parties shall function under this agreement until such release is obtained or Seller may deliver conveyance at any time sooner if Seller so elects. * * * * *

Purchaser concurrently herewith executes and delivers to Seller a quitclaim deed to said property. Seller may at any time after default by the Purchaser in the performance of the obligations herein provided for, record said quitclaim deed. Said quitclaim deed shall be returned to Purchaser upon Purchaser's becoming entitled to a conveyance hereunder.

Other provisions related to taxes on the property, title and possession. Some of the sales agreements used by petitioner varied from the form set out above; instead of the requirement that the Seller deliver and the buyer accept conveyance of the property within five years after the first-period installments had been made, the option is given to the buyer to require a conveyance of the property after eight (in some agreements, twelve) years from the agreement date.

Although the agreement called for the concurrent execution of an assumption of the mortgage by the purchaser, to be used when property was conveyed to a purchaser, the document actually signed was the purchaser's guarantee of petitioner's mortgage

loan. Even if title had passed before complete performance by the purchaser, the petitioner would have remained primarily liable to the bank for the unpaid amount of the mortgage.

Petitioners reported the following number of sales between 1942 and 1945 on the installment basis:

Year	Stonecrest	Brookfield
1942	349	103
1943	88	605
1944	9	
1945	91	
	<hr/> 537	<hr/> 708

The level of payments that the purchaser was required to make during the first 27 months was greater than the level of payments during the remaining period of the installment contract, the difference in level representing the excess of purchase price (less down payment) over the original amount of the mortgage loan plus interest on the excess.

In no single case under the Uniform Agreement of Sale did the petitioner exercise its option to deed property to a purchaser. In no single case under any agreement of sale did a purchaser exercise an option to receive a deed prior to full payment of the total purchase price.

All monthly payments on contracts were made directly to the petitioner by the purchaser, and all monthly payments due on loans were made directly by the petitioner to the bank until the property was deeded to the purchaser, at which time the purchaser's contract account was closed and the un-

realized profit applicable thereto was reported as income for that year. There was no intended synchronization between the time fixed for payments due from purchasers on homes sold under installment contracts and the time fixed for payments by petitioner to the bank on its loans secured by deeds of trust on the properties sold on the installment plan.

The lending bank (mortgagee) carried all loans on its books and records as loans due from the petitioner from the date each individual loan was granted until the closing-out of the installment contract pertaining to the property on which petitioner had executed a deed of trust as security for the loan.

Every installment sales contract reflected on petitioner's books was closed by petitioner at the time the property covered by the contract was deeded to the purchaser. In substantially all cases the property covered by an installment sales contract was not deeded to the purchaser until the purchaser paid the amount remaining due on the installment sales contract, and, concurrently with the receipt of such sum, petitioner paid the bank the amount due on the loan which was secured by a deed of trust on the property covered by the installment sales contract. In a few cases, by special arrangement between the petitioner and purchaser, the petitioner has nevertheless deeded property to a purchaser without requiring payment of the purchase price in full. In each of such cases, which in the aggregate represent only a small percentage of the total num-

ber of contracts, the deed was issued for individual and personal reasons and not as a matter of right on the part of either party. In such cases the party receiving the deed made arrangements with the bank to assume the mortgage on the property in question and paid petitioner any amount due on the installment sales contract in excess of the amount due on the deed of trust note. In every instance in which a deed was issued to a purchaser, such purchaser's installment sales contract was closed, and petitioner reported as income in that year the entire amount of the unrealized profit on the installment sale. None of the transactions described in this paragraph involved the exercise of any option given to either party under any of the agreements of sale.

The petitioners reported as income from the sales in question here that proportion of the installment payments actually received which the gross profit to be realized on the sale bore to the total contract price. "Total contract price" was considered to be the amount for which a property sold, without any deduction for the amount of the mortgage.

In determining the percentage of each installment to be returned as income in the taxable years the respondent, following the regulation, included the amount of the mortgage in the "selling price" but excluded it from the "total contract price" to the extent that it did not exceed the seller's basis in the property. Since in each of the sales made by petitioners the mortgage on the property exceeded the seller's basis, the respondent added the excess to the basis to determine "total contract price."

Included in "initial payments" were the buyer's down payment, payments on the purchase price during the taxable period when the sale was made, and the excess of the mortgage over the seller's basis. Using this method respondent determined that 100 per cent of the installment payments received by petitioners during the years in question should be reported as profit for those years, with the exception of the year 1945 as to Stonecrest, for which the percentage is 83.5.

Opinion

Tietjens, Judge: Where property is sold on the installment plan the seller may return as income from the sale in any taxable year the proportion of the installment payments actually received in that year which the gross profit on the sale bears to the total contract price. Section 44, Internal Revenue Code of 1939.¹ This provision, enacted in the Rev-

¹ Sec. 44. Installment Basis.

(a) Dealers in Personal Property.—Under regulations prescribed by the Commissioner with the approval of the Secretary, a person who regularly sells or otherwise disposes of personal property on the installment plan may return as income therefrom in any taxable year that proportion of the installment payments actually received in that year which the gross profit realized or to be realized when payment is completed, bears to the total contract price.

(b) Sales of Realty and Casual Sales of Personality.—In the case * * * of a sale or other disposition of real property, if * * * the initial payments do not exceed 30 per centum of the selling price * * *, the income may, under regulations prescribed by the Commissioner with the approval of

enue Act of 1926,² relieved a seller from having to pay an income tax in the year of sale based on the full amount of anticipated profits when in fact only a small portion of the sales price had been received. *Commissioner v. South Texas Lumber Co.*, 333 U.S. 496 (1948). It permitted him to distribute the profit on an installment sale over the years during which the purchase money would be actually received, by dividing the payments into parts representing a return of capital and profit. In the case of real property sold on the installment plan where there was a mortgage on the property which the buyer either assumed or took the property subject to, the statutory scheme of returning a portion of each payment as income in the year received did not reach all of the seller's profit, since the total amount of the selling price was not paid over by the buyer to the seller; that portion of the selling price represented by the mortgage was paid by the buyer directly to the mortgagee. To remedy this regulations were issued by the Commissioner and approved by the Secretary of the Treasury to provide that the amount of the mortgage, to the extent that it did not exceed the seller's basis in the property sold, was not to be considered a part of the "initial payments" or of the "total contract price." Treas-

the Secretary, be returned on the basis and in the manner above prescribed in this section. As used in this section the term "initial payments" means the payments received in cash or property other than evidences of indebtedness of the purchaser during the taxable period in which the sale or other disposition is made.

² Section 212 (d), 44 Stat. 23.

ury Regulations 69, Article 44, promulgated August 28, 1926; amended by Treasury Decision 4255, January 8, 1929, C.B. VIII-1, p. 165. The reduction in the "total contract price" had the effect of increasing the percentage of each installment payment to be returned as income, thereby reaching the entire profit on the sale. The amount by which the mortgage exceeded the seller's basis in the property was treated as a part of the "initial payments" and was added to the seller's basis in computing "total contract price." The regulation was upheld in a case involving the sale of mortgaged property where the buyer unequivocally "assumed" the mortgage, as a fair attempt to carry out the intent of Congress. *Burnet v. S. & L. Bldg. Corp.*, 288 U.S. 406 (1933).

The wording of the regulation, insofar as it relates to the question here, is as follows:

Regulations 111:

Sec. 29.44-2. Sale of Real Property Involving Deferred Payments.— * * * * *

In the sale of mortgaged property the amount of the mortgage, whether the property is merely taken subject to the mortgage or whether the mortgage is assumed by the purchaser, shall be included as a part of the "selling price," but the amount of the mortgage, to the extent it does not exceed the basis to the vendor of the property sold, shall not be considered as a part of the "initial payments" or of the "total contract price," as those terms are used in section

44, in sections 29.44-1 and 29.44-3, and in this section.

The above form of the regulation is the same as that approved by the Supreme Court in *Burnet v. S. & L. Bldg. Corp.*, *supra*.

In determining the deficiencies here involved the respondent followed the procedure described in our findings of fact and applied the regulation to the sales made by petitioners, claiming that according to the terms of the agreement of sale a buyer, in effect, assumed the mortgage obligation, or at least that the property was taken subject to the mortgage.

Whether respondent has properly determined the amount of reportable income received by petitioners turns on whether a buyer from petitioners either assumed the mortgage on the property or took the property subject to the mortgage within the meaning of the regulation.

While the regulation first refers broadly to "the sale of mortgaged property," the language following this broad reference describes the two types of sales of mortgaged property to which the regulation applies: (a) where a buyer takes property subject to a mortgage, or (b) assumes the mortgage. These expressions we take to have the meaning customarily attributed to them in transactions concerned with the transfer of mortgaged property. *Crane v. Commissioner*, 331 U. S. 1, 6 (1947). Taking property subject to a mortgage means that the buyer pays the seller for the latter's redemption interest, i.e., the difference between the amount of the mortgage debt and the total amount for which the prop-

erty is being sold, but the buyer does not assume a personal obligation to pay the mortgage debt. The buyer agrees that as between him and the seller, the latter has no obligation to satisfy the mortgage debt, and that the debt is to be satisfied out of the property. Although he is not obliged to, the buyer will ordinarily make the payments on the mortgage debt in order to protect his interest in the property. Where a buyer assumes a mortgage on property, he pays the seller for the latter's redemption interest, and in addition promises the seller to pay off the mortgage debt. This promise of the buyer can ordinarily be enforced by the mortgagee. 5 Tiffany, *The Law of Real Property*, sections 1435, 1436 (3rd ed. 1939); IV *American Law of Property*, sections 16.125, 16.127, 16.128-16.132 (1952).

The typical agreement of sale used by petitioners, as set out fully in our findings of fact, first specified the purchase price of the property and then provided the manner of payment: a down payment of \$100, monthly payments of \$47.40 for 27 months (first period), and then of \$33.50 until the purchase price and interest were paid in full (second period). Mention is then made of a deed of trust (mortgage) conveying the property to trustees to secure payment of a promissory note executed by the seller. The agreement states that the installment payments include interest and charges at the same rate and as provided in the promissory note secured by the deed of trust, and the seller is required to apply the installment payments to the loan and to the rest of the purchase price and interest thereon.

Provision is then made that the seller shall deliver and the buyer accept conveyance of the property within 5 years (8 and 12 years in some agreements) after the first-period installment payments have been made. The option is given to the buyer to determine when in the 5-year (sometimes 8 and 12) period the conveyance will be made. In some agreements an option is given to the buyer to require conveyance of the property within a period of years after the agreement date. Upon conveyance the buyer is to assume payment of the promissory note secured by the deed of trust. After assumption the buyer's payments on the purchase price were to be the monthly payments required by the promissory note, but in the event the seller could not obtain a release from its obligation on the promissory note from the lending bank, the seller could withhold conveyance of the property until a release of its liability was obtained, or could make the conveyance at any time sooner.

The foregoing provisions of the agreement make it clear that there was no assumption of the mortgage when a property was sold by petitioners. As is clearly stated, the buyer agreed to assume the mortgage upon conveyance of the property by the seller at some time from 5 to 12 years after the first-period installments had been made. The regulation has no application until there is an actual assumption. The fact that the seller was to use the installment payments to pay off the mortgage debt does not constitute an assumption of the mortgage by the buyer. As we have pointed out, assump-

tion of a mortgage means that the buyer takes over the seller's obligation to the mortgagee and incurs an obligation generally enforceable by the mortgagee. Here, as the parties have stipulated, the buyer was under no present obligation to the mortgagee.

Nor was any sale made by petitioner "subject to" a mortgage in the ordinary usage of that expression. The expression means that the buyer has no personal obligation to pay the mortgage debt; that, as between seller and buyer, the seller has no obligation to pay the debt; and that the debt is to be satisfied from the property. Here there was no understanding that the debt was to be satisfied out of the property; instead it was explicitly provided in the agreement of the parties that the seller was to make the payments on the mortgage debt until there was a conveyance of the property. It has been stated that in determining whether or not a transfer is subject to a mortgage:

A circumstance which is usually of controlling importance in this regard is whether the mortgage was considered in adjusting the purchase price. If the price was reduced by reason of the mortgage, it is a reasonable conclusion that it was intended that the debt, either in whole or in part, should be imposed on the land in the hands of the transferee rather than on the transferor, while if the full agreed value of the land was paid, it may be concluded that the parties intended the grantor to pay the

mortgage debt out of the proceeds of the sale.

[Tiffany, sec. 1435, p. 365.]

In this case there was no reduction in selling price because of the mortgage and it seems clear that the seller was intended to pay the mortgage debt out of the proceeds of the sale. By his interpretation respondent would extend the application of the regulation to every sale of property that has a mortgage on it. While in a sense every sale of mortgaged property is subject to a mortgage since the property remains liable to have the mortgage debt satisfied from it, we think the expression was used in the regulation in its customary meaning, to define the obligations of the parties to a sale of property with respect to the mortgage debt. See Tiffany, *supra*, sec. 1435.

The position taken by respondent here appears contrary to G.C.M. 3048 (C.B. VII-1, p. 60, Jan.-June, 1928), where it was ruled that the regulation in question was inapplicable. The form of the regulation there involved contained language identical to that before us (*vis.*, "In the sale of mortgaged property * * *, whether the property is merely taken subject to the mortgage or whether the mortgage is assumed by the purchaser"). The situation dealt with in the ruling was one where real estate against which there was a "reducing mortgage" was sold on installments. The purchaser did not assume the mortgage but made monthly payments to the vendor who in turn made the mortgage payments, similarly to the case here. It was held that

the rule prescribed in the regulations for the determination of the percentage of profit returnable each year in the case of mortgaged property sold on the installment plan was inapplicable.

The cases relied on by respondent—*Burnet v. S. & L. Bldg. Corp.*, supra; *Dalriada Realty Co., Inc.*, 5 B.T.A. 905; *Pacheco Creek Orchard Co.*, 12 B.T.A. 1358; *Katherine H. Watson*, 20 B.T.A. 270; and *Fifty-Three West Seventy-second Street, Inc.*, 23 B.T.A. 164, are distinguishable. In all of those cases with the exception of *Pacheco Creek Orchard Co.*, the mortgage was assumed by the vendee. In the *Pacheco* case payment of the mortgage was made by the vendee to the mortgagee and it was held that while the mortgage was not “assumed,” the property was “purchased subject to the mortgage,” and the regulation applied.

In summary, we think that the type of transaction entered into by petitioner with a purchaser is apparent from the face of the agreement of sale. It was an agreement by the parties that the purchaser was to make payments on the purchase price for a period of time, after which petitioner was to pass title to the property and the purchaser was to take over the remaining mortgage payments. There was no present assumption of the mortgage nor was the property taken subject to the mortgage, as those expressions are customarily used. Respondent therefore erred in subtracting the amount of the mortgage from the “total contract price” in determining the percentage of income from installment sales to be returned by petitioners during the

taxable years in question; and also erred in including the excess of the mortgage over the seller's basis in "initial payments."

In the event we decide this issue for petitioners, which we do, the parties have stipulated the figures to be used in determining how much installment income should be reported in the taxable years.

In view of other concessions,

Decisions will be entered under Rule 50.

Served July 14, 1955.

The Tax Court of the United States
Washington

Docket No. 42445

THE STONECREST CORPORATION,
Petitioner,

v.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

DECISION

Pursuant to the determination of the Court, as set forth in its Findings of Fact and Opinion filed July 14, 1955, the parties having filed on October 11, 1955, an agreed computation of tax, now, therefore, it is

Ordered and Decided: That there is no deficiency or overpayment in income tax, declared value excess profits tax, or excess profits tax for the year 1942; that there is a deficiency in income tax in the amount of \$193.16, for the year 1943; that there is no deficiency or overpayment in declared value excess profits tax, and that there is an overpayment of excess profits tax in the amount of \$958.00, which amount is subject to adjustment for post-war refund credit, and which amount was paid within three years before the execution of an agreement by both the Commissioner and the Taxpayer pursuant to section 276 (b), Internal Revenue Code of 1939 to extend beyond the time prescribed in section 275 the time within which the Commissioner might assess the tax, which agreement was executed within three years from the time the return was filed by the Taxpayer, for 1943; and that there is a deficiency in income tax in the amount of \$4,717.75 and no deficiency or overpayment in declared value excess profits tax or excess profits tax for the year 1945.

Entered: Oct. 13, 1955.

[Seal] /s/ NORMAN O. TIETJENS,
 Judge.

Served: Oct. 14, 1955.

The Tax Court of the United States
Washington

Docket No. 42446

THE BROOKFIELD CORPORATION,
Petitioner,

v.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

DECISION

Pursuant to the determination of the Court, as set forth in its Findings of Fact and Opinion filed July 14, 1955, the parties having filed on October 11, 1955, an agreed computation of tax, now, therefore, it is

Ordered and Decided: That there are no deficiencies or overpayments in income tax, declared value excess profits tax or excess profits tax for the years 1942 and 1943; that there is no deficiency or overpayment in excess profits tax for the year 1944; that there is no deficiency or overpayment of declared value excess profits tax or excess profits tax for the year 1945; and that there are overpayments of income tax and declared value excess profits tax for the year 1944 in the respective amounts of \$25,507.49 and \$972.95, and that there is an overpayment of income tax in the amount of \$3,558.52 for the year 1945, all of which amounts were paid within three years before the execution of an agreement by both the Commissioner and the Taxpayer

pursuant to section 276 (b), Internal Revenue Code of 1939 to extend beyond the time prescribed in section 275 the time within which the Commissioner might assess the tax, which agreement was executed within three years from the time the return was filed by the taxpayer.

Entered: Oct. 13, 1955.

[Seal] /s/ NORMAN O. TIETJENS,
 Judge.

Served: Oct. 14, 1955.

In The United States Court of Appeals
For The Ninth Circuit

T.C. Docket No. 42445

COMMISSIONER OF INTERNAL REVENUE,
Petitioner on Review,

v.

THE STONECREST CORPORATION,
Respondent on Review.

PETITION FOR REVIEW

To the Honorable Judges of the United States
Court of Appeals for the Ninth Circuit:

The Commissioner of Internal Revenue hereby petitions the United States Court of Appeals for the Ninth Circuit to review the decision entered by The Tax Court of the United States on October 13,

1955, ordering and deciding that there is no deficiency or overpayment in income tax, declared value excess profits tax, or excess profits tax for the year 1942; that there is a deficiency in income tax in the amount of \$193.16, for the year 1943; that there is no deficiency or overpayment in declared value excess profits tax, and that there is an overpayment of excess profits tax in the amount of \$958.00, which amount is subject to adjustment for post-war refund credit, and which amount was paid within three years before the execution of an agreement by both the Commissioner and the Taxpayer pursuant to section 276 (b), Internal Revenue Code of 1939 to extend beyond the time prescribed in section 275 the time within which the Commissioner might assess the tax, which agreement was executed within three years from the time the return was filed by the Taxpayer, for 1943; and that there is a deficiency in income tax in the amount of \$4,717.75 and no deficiency or overpayment in declared value excess profits tax or excess profits tax for the year 1945. This petition for review is filed pursuant to the provisions of sections 7482 and 7483 of the Internal Revenue Code of 1954.

The taxpayer's income tax returns were filed with the Collector of Internal Revenue for the First District of California whose office is within the jurisdiction of the United States Court of Appeals for the Ninth Circuit.

Nature of Controversy

The case presents for adjudication the question

whether under terms of agreements of sale the buyers from the taxpayer of real property that had a mortgage on it did not assume the mortgage or take the property subject to the mortgage within the meaning of Treasury Regulations 111 Sec. 29.44-2 relating to the determination of the percentage of taxable income to be returned on the installment basis as permitted by Sec. 44(b), Internal Revenue Code of 1939.

/s/ H. BRIAN HOLLAND,
Assistant Attorney General,

/s/ JOHN POTTS BARNES,
Chief Counsel, Internal Revenue Service, Counsel
for Petitioner on Review.

[Endorsed]: T.C.U.S. Jan. 12, 1956.

In The United States Court of Appeals
For The Ninth Circuit

T.C. Docket No. 42446

COMMISSIONER OF INTERNAL REVENUE,
Petitioner on Review,

v.

THE BROOKFIELD CORPORATION,
Respondent on Review.

PETITION FOR REVIEW

To the Honorable Judges of the United States
Court of Appeals for the Ninth Circuit:

The Commissioner of Internal Revenue hereby

petitions the United States Court of Appeals for the Ninth Circuit to review the decision entered by The Tax Court of the United States on October 13, 1955, ordering and deciding that there are no deficiencies or overpayments in income tax, declared value excess profits tax or excess profits tax for the years 1942 and 1943; that there is no deficiency or overpayment in excess profits tax for the year 1944; that there is no deficiency or overpayment of declared value excess profits tax or excess profits tax for the year 1945; and that there are overpayments of income tax and declared value excess profits tax for the year 1944 in the respective amounts of \$25,507.49 and \$972.95, and that there is an overpayment of income tax in the amount of \$3,558.52 for the year 1945, all of which amounts were paid within three years before the execution of an agreement by both the Commissioner and the Taxpayer pursuant to section 276 (b), Internal Revenue Code of 1939 to extend beyond the time prescribed in section 275 the time within which the Commissioner might assess the tax, which agreement was executed within three years from the time the return was filed by the taxpayer. This petition for review is filed pursuant to the provisions of sections 7482 and 7483 of the Internal Revenue Code of 1954.

The taxpayer's income tax returns were filed with the Collector of Internal Revenue for the First District of California whose office is within the jurisdiction of the United States Court of Appeals for the Ninth Circuit.

Nature of Controversy

The case presents for adjudication the question whether under terms of agreements of sale the buyers from the taxpayer of real property that had a mortgage on it did not assume the mortgage or take the property subject to the mortgage within the meaning of Sec. 29.44-2 Treasury Regulations 111 relating to the determination of the percentage of taxable income to be returned on the installment basis as permitted by Sec. 44(b), Internal Revenue Code of 1939.

/s/ H. BRIAN HOLLAND,
Assistant Attorney General,

/s/ JOHN POTTS BARNES,
Chief Counsel, Internal Revenue Service, Counsel
for Petitioner on Review.

[Endorsed]: T.C.U.S. Filed Jan. 12, 1956.

[Title of Court of Appeals and Causes.]

STATEMENT OF POINTS

Comes Now the petitioner on review herein and makes this concise statement of points on which he intends to rely on the review herein, to-wit:

The Tax Court of the United States erred:

1. In holding that the regulation in question (Sec. 29.44-2, Regulations 111) applies only (a)

where a buyer takes property subject to a mortgage, or (b) assumes the mortgage.

2. In failing to hold that the regulation in question (Sec. 29.44-2, Regulations 111) applies in all cases of installment sales of mortgaged property sold subject to the mortgage.

3. In holding that under the terms of the agreement of sale, the buyer from taxpayers of real property that had a mortgage on it did not assume the mortgage or take the property subject to the mortgage within the meaning of Sec. 29.44-2 of Regulations 111 relating to the determination of the percentage of taxable income to be returned on the installment basis.

4. In failing to hold that under the terms of the agreement of sale, the purchasers of mortgaged real property either "assumed" the mortgages or took the properties "subject to" the mortgages within the meaning of Regulations 111, Sec. 29.44-2.

5. In failing to hold that the taxpayers sold mortgaged property on the installment plan within the ambit of Regulations 111, Sec. 29.44-2.

6. In holding that the Commissioner erred in subtracting from the total contract price, the amount of the mortgage to the extent that it did not exceed the seller's basis in the property, in determining the percentage of income from installment sales to be returned by taxpayers during the taxable years in question, and also erred in including the excess

of the mortgage over the seller's basis in initial payments.

7. In failing to uphold the action of the Commissioner in following Regulations 111, Sec. 29.44-2, with the result, that the amount of the mortgage, to the extent that it did not exceed the basis of the property, should be deducted from the "selling price" to determine the "total contract price"; and that the excess of the mortgage over basis was includible in determining the initial payment.

8. In holding that G.C.M. 3048, C.B. VII-1, p. 60 (1928) is indistinguishable from the instant cases.

9. In failing to uphold the deficiencies as determined by the Commissioner.

10. In that its opinion and decisions are contrary to law and regulations.

/s/ CHARLES K. RICE,

Acting Assistant Attorney General,

/s/ JOHN POTTS BARNES,

Chief Counsel, Internal Revenue Service, Counsel
for Petitioner on Review.

Statement of Service Attached.

[Endorsed]: T.C.U.S. Filed March 15, 1956.

[Title of Tax Court and Causes Nos. 42445, 42446.]

CERTIFICATE

I, Howard P. Locke, Clerk of The Tax Court of the United States, do hereby certify that the fore-

going documents, 1 to 49, inclusive, constitute and are all of the original papers and proceedings, including exhibits 1(a), 1(b), (Dk. No. 42445), 1-A, 2-B, (Dk. No. 42446), 3(b), 3(c), 3(d), 3(e), 3(f), 4(a), 5(a), 5(b), 5(c), 6(a), 6(b), 6(c), (Dk. No. 42445), 6(d), 7(a), 7(a-1), 7(a-2), 7(a-3), 7(b), 7(c), 7(d), 7(e), 8(a), 8(b), 8(c), 9(a), 9(b), 9(c), 9(d), attached to stipulations of facts, and respondent's exhibits E thru L, admitted in evidence, as called for by the Statement "Re Diminution of Record" on file in my office as the original and complete record in the proceedings before The Tax Court of the United States entitled: "The Stonecrest Corporation, Petitioner, vs. Commissioner of Internal Revenue, Respondent, Dk. No. 42445," "The Brookfield Corporation, Petitioner, vs. Commissioner of Internal Revenue, Respondent, Dk. No. 42446," and in which the respondent in the Tax Court proceedings has initiated appeals as above numbered and entitled, together with a true copy of the docket entries in said Tax Court proceedings, as the same appear in the official docket book in my office.

In testimony whereof, I hereunto set my hand and affix the seal of The Tax Court of the United States, at Washington, in the District of Columbia, this 28th day of March, 1956.

[Seal] /s/ HOWARD P. LOCKE,

Clerk, The Tax Court of the
United States.

[Endorsed]: No. 15096. United States Court of Appeals for the Ninth Circuit. Commissioner of Internal Revenue, Petitioner, vs. The Stonecrest Corporation and The Brookfield Corporation, Respondents. Transcript of the Record. Petitions to Review Decisions of The Tax Court of the United States.

Filed: April 9, 1956.

/s/ PAUL P. O'BRIEN,
Clerk of the United States Court of Appeals for
the Ninth Circuit.

In The United States Court of Appeals
For The Ninth Circuit

Tax Court Docket Nos. 42,445 and 42,446

COMMISSIONER OF INTERNAL REVENUE,
Petitioner,

v.

THE STONECREST CORPORATION and THE
BROOKFIELD CORPORATION,
Respondents.

STIPULATION

It is hereby stipulated and agreed by and between the attorney for the respondents and the petitioner in the above-entitled causes, subject to the approval of the Court, that:

1. The two above-captioned cases now pending

before the Court of Appeals for the Ninth Circuit may be consolidated for review and for printing the record on review, briefing, hearing, argument and decision, and

2. The exhibits attached to the stipulation of facts (Document Nos. 21 and 22) need not be printed in the record but may be incorporated therein by reference so that any part thereof may be printed in appendices to the briefs of the parties or relied upon in hearing and argument, and considered by the Court of Appeals for decision on review.

Dated: April 19, 1956.

/s/ CHARLES K. RICE,
Assistant Attorney General,
Attorney for Petitioner.

/s/ BERT F. RABINOWITZ,
Attorney for Respondents.

[Endorsed]: Filed May 15, 1956. Paul P. O'Brien,
Clerk.

[Title of Court of Appeals and Causes.]

STIPULATION

It is hereby stipulated and agreed by and between the attorney for the respondents and the petitioner in the above-entitled causes, subject to the approval of the Court, that:

The respondents' Exhibits E through L, admitted in evidence in the Tax Court below (Document No. 27), need not be printed in the record but may be incorporated therein by reference so that any part thereof may be printed in appendices to the briefs of the parties or relied upon in hearing and argument, and considered by the Court of Appeals for decision on review.

Dated: May 18, 1956.

/s/ CHARLES K. RICE,
Assistant Attorney General,
Attorney for Petitioner.

/s/ BERT F. RABINOWITZ,
Attorney for Respondents.

[Endorsed]: Filed May 22, 1956. Paul P. O'Brien,
Clerk.

In the United States Court of Appeals
for the Ninth Circuit

COMMISSIONER OF INTERNAL REVENUE, PETITIONER

v.

THE STONECREST CORPORATION and
THE BROOKFIELD CORPORATION, RESPONDENTS

On Appeal from the Decisions of the
Tax Court of the United States

BRIEF FOR THE PETITIONER

CHARLES K. RICE,
Assistant Attorney General.

LEE A. JACKSON,
I. HENRY KUTZ,
DAVIS W. MORTON, JR.,
Attorneys,
Department of Justice,
Washington 25, D. C.

FILED

NOV 23 1957

PAUL P. O'BRIEN, CLERK

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**In the United States Court of Appeals
for the Ninth Circuit**

No. 15,096

COMMISSIONER OF INTERNAL REVENUE, PETITIONER

v.

THE STONECREST CORPORATION and
THE BROOKFIELD CORPORATION, RESPONDENTS

On Appeal from the Decisions of the
Tax Court of the United States

BRIEF FOR THE PETITIONER

OPINION BELOW

The opinion of the court below (R. 120-139) is reported at 24 T. C. 659.

JURISDICTION

This appeal involves corporation income, declared value excess profits and excess profits taxes of Stonecrest Corporation for the calendar years 1942, 1943 and 1945, in the amount of \$254,772.82, plus interest, and of the Brookfield Corporation for the years 1942 through 1945, inclusive, in the amount of \$512,729.23, plus interest, or a combined total tax liability for both corporations of \$767,502.05, plus interest, which is made up as follows (R. 120-121, 139-140, 141-142):

Declared Value

Year	Income Tax	Excess Profits Tax	Excess Profits Tax	Total
1942	\$ 3,766.08	\$29,678.26	\$158,359.56	\$191,803.90
1943	[193.16] ¹	3,883.19	42,331.60	
	-----	-----	958.00 ²	46,979.63
1945	12,176.55	414.62	8,115.87	
	[4,717.75] ³	-----	-----	15,989.29
				<u>\$254,772.82</u>

1942	\$ 2,116.32	6,514.86	\$ 37,918.40	\$ 46,549.58
1943	21,803.05	61,998.28	309,345.48	393,146.81
1944	1,679.71	3,287.51	19,278.31	
	25,507.49 ⁴	972.95 ⁵	-----	50,725.97
1945	17,686.81	1,061.54	-----	
	3,558.52 ⁶	-----	-----	22,306.87
				<u>\$512,729.23</u>
		Total, both corporations		<u>\$767,502.05</u>

⁶ Overpayment of income tax for 1945, per Tax Court's decision below. (R. 141.)

On April 9, 1952, the Commissioner mailed to Stonecrest Corporation a notice that there were deficiencies in its income, declared value excess profits, and excess profits taxes for the years 1942, 1943 and 1945 in the total amount of \$258,725.73. (R. 7, 120). On the same date, he mailed a similar notice to the Brookfield Corporation that there were deficiencies in its income, declared value excess profits, and excess profits taxes for the years 1942 through 1945, inclusive, in the amount of \$482,690.27. (R. 68, 121). Within ninety days thereafter, on July 3, 1952, separate petitions were filed in the Tax Court by the two corporate taxpayers for a redetermination of the respective deficiencies under the provisions of Section 272 of the Internal Revenue Code of 1939. (R. 1, 4). A motion to consolidate the two cases below for hearing and decision was made and granted on September 21, 1953. (R. 2, 4, 31, 121). The decisions of the Tax Court with respect to Stonecrest (R. 139-140) and with respect to Brookfield (R. 141-142) were entered on October 13, 1955 (R. 140, 142). The two cases were brought to this Court by separate petitions for review filed by the Commissioner with respect to Stonecrest (R. 142-144) and with respect to Brookfield (R. 144-146) on January 12, 1956 (R. 144, 146). On April 19, 1956, the parties stipulated that the two cases be consolidated before this Court, on review, for printing, briefing, hearing, argument and decision. (R. 150-151). Jurisdiction is conferred on this Court by Section 7482 of the Internal Revenue Code of 1954.

QUESTION PRESENTED

Whether on the record facts the Tax Court erred in holding the agreements of sale here not to constitute sales of mortgaged property within the meaning of Section 29.44-2 of Treasury Regulations 111, and in failing to apply the terms of this section in determining the percentage of taxable income to be returned on the installment basis.

STATUTE AND REGULATIONS INVOLVED

Internal Revenue Code of 1939:

Sec. 44. INSTALLMENT BASIS.

(a) *Dealers in Personal Property.*—Under regulations prescribed by the Commissioner with the approval of the Secretary, a person who regularly sells or otherwise disposes of personal property on the installment plan may return as income therefrom in any taxable year that proportion of the installment payments actually received in that year which the gross profit realized or to be realized when payment is completed, bears to the total contract price.

(b) *Sales of Realty and Casual Sales of Personality.*—In the case * * * of a sale or other disposition of real property, if * * * the initial payments do not exceed 30 per centum of the selling price * * *, the income may, under regulations prescribed by the Commissioner with the approval of the Secretary, be returned on the basis and in the manner above prescribed in this section. As used in this section the term “initial payments” means the payment received in cash or property other than evidence of indebtedness of the purchaser during the taxable

period in which the sale or other disposition is made.

(26 U.S.C. 1952 ed., Section 44.)

Treasury Regulations 111, promulgated under the Internal Revenue Code of 1939.

Sec. 29.44-2 Sale of Real Property Involving Deferred Payments.—* * *

* * * *

In the sale of mortgaged property the amount of the mortgage, whether the property is merely taken subject to the mortgage or whether the mortgage is assumed by the purchaser, shall be included as a part of the "selling price", but the amount of the mortgage, to the extent it does not exceed the basis to the vendor of the property sold, shall not be considered as a part of the "initial payments" or of the "total contract price", as those terms are used in section 44, in sections 29.44-1 and 29.44-3, and in this section. * * *

STATEMENT

The pertinent facts giving rise to these petitions for review, as stipulated (R. 19-48, 48-68, 117-119) and as found by the Tax Court below (R. 121-130), appear as follows:

Both Stonecrest Corporation's and Brookfield Corporation's methods of operation were essentially the same. To the extent possible, facts relating only to Stonecrest's operations were treated in the Tax Court's findings. (R. 121.)

During the taxable years, Stonecrest's principal

business was the construction of housing developments consisting of individual residences. Stonecrest (hereinafter referred to as taxpayer) is a California corporation with its principal office in San Francisco. Its income and excess profits tax returns for the years 1942 through 1945 were filed with the Collector in that city. Insofar as the sales here in question are concerned, taxpayer kept its books and records and reported its profits on the installment basis. (R. 121-122.)

Taxpayer's method of operation was as follows: Certain of its shareholders, prior to taxpayer's organization, had participated in a partnership, which purchased an unimproved tract of land, the purchase price being financed partially by partnership funds but principally by a San Francisco bank loan. The loan was evidenced by a promissory note executed by the partners and their wives and secured by a blanket deed of trust covering the entire tract in favor of the lending bank. (R. 122.)

Stonecrest Corporation was formed, with the partners being stockholders, and it purchased the unimproved tract from the partnership. The corporation then submitted its plans for building individual residences to the F.H.A. to obtain the latter's commitment to insure loans on the property. (R. 122.)

Having obtained the general approval of the F.H.A., taxpayer applied to the San Francisco Bank for loans for the construction of individual housing units, which were made after an F.H.A. commitment to insure each loan had been secured. In connection with the loan, taxpayer executed a deed of trust

note and a deed of trust on each unit, which was recorded by the bank. (R. 122.)

The original blanket deed of trust on the entire tract was released on individual lots as loans for the construction of housing units on these lots were made. An agreed release price was paid to the mortgagee bank out of the bank's construction loans. When all of the lots in the subdivisions developed by taxpayer were subject to individual deeds of trust, taxpayer's stockholders and their wives, who had personally signed the original note and blanket deed of trust, were released from their personal liability thereon, so that only the taxpayer was liable to the San Francisco Bank (mortgagee) on the deed of trust notes with respect to houses covered by installment contracts that had not been closed.⁷ (R. 122-123.)

When taxpayer negotiated an installment sale to a purchaser, the transaction was carried out in the following manner: The purchaser would execute a "Mortgagor's Statement" contained in a "Mortgagee's Application for Mortgage Insurance," which was filed by the San Francisco Bank (mortgagee) with the F.H.A., together with a "Consent to Substitution of Mortgagors under Title VI." The "Mort-

⁷ In the case of Brookfield Corporation, the shareholders and their wives were required personally to guarantee each individual note secured by individual deeds of trust on the houses constructed and sold, and they were never relieved of their secondary liability on such loans until the loans were either paid in full or, as in a few cases not here in issue, assumed by the purchasers. (R. 123.)

gagor's Statement" contained information regarding the financial status of the mortgagor, *viz.*, purchaser, for the guidance of the F.H.A. in determining whether to insure a mortgage loan on the property being purchased. (R. 123.)

When a house was ready for occupancy, a "Uniform Agreement of Sale" was executed by the purchaser and the taxpayer corporation, and the purchaser also executed that part of the "Consent to Substitution of Mortgagors under Title VI" designated "Purchaser's Certificate," which acknowledged his receipt of the property and contained his agreement to pay the mortgage debt. The purchaser also executed a guarantee to the San Francisco Bank (mortgagee) of taxpayer's obligation on the mortgage loan, and a quitclaim deed to the property in favor of the taxpayer. (Neither the San Francisco Bank nor the F.H.A. retained an executed copy of the Purchaser's Certificate or the purchaser's guarantee of the loan made to taxpayer.) (R. 123-124.)

The Uniform Agreement of Sale provided, in part, as follows (R. 124-126):

That said Seller [*viz.*, the taxpayer] agrees to sell and convey to the Purchaser, and Purchaser hereby agrees to purchase * * *

[Description of San Francisco property.]

The purchase price for said property * * * is the sum of \$4,450.00 payable as follows:

\$100.00 in cash, receipt of which is hereby acknowledged;

\$47.40 per month * * * for a period of 27 months (first period), and thereafter \$33.50 per

month * * * until purchase price and interest are paid in full (second period). Seller heretofore executed a promissory note to The San Francisco Bank [*viz.*, mortgagee] in the principal sum of \$4,000.00, and a trust deed conveying said real property to E. T. Kruse and Parker S. Maddux, as trustees, to secure the payment of said note (pursuant to the provisions of Title 6, F.H.A.). Reference is hereby made to the record of said trust deed * * * and the same is hereby incorporated herein. Said installments payable during the first and second periods include interest and charges at the rate and as provided for in said note and trust deed upon that portion of purchase price represented thereby. Installments payable during the first period include interest at the rate of 6% per annum on balance of purchase price. *Said installments shall be applied by the Seller to the requirements of said F.H.A. loan and to the payment of balance of purchase price and interest thereon. Monthly installments payable pursuant to said F.H.A. loan are subject to increase or decrease as provided for in said note and trust deed representing the same,* and in the event of such increase or decrease, installments payable hereunder shall be increased or decreased accordingly. Seller shall deliver and Purchaser shall accept conveyance of said property upon first period installments being paid in full at any time thereafter within five years therefrom at option of Seller, and Purchaser shall thereupon assume the performance of Seller's unperformed obligations under the terms of said note and trust deed, and Purchaser hereby consents to Seller being then released therefrom. For

this purpose, Purchaser executes an assumption concurrently herewith, delivers the same to Seller, and the Seller is authorized to deliver said assumption to The San Francisco Bank upon delivery of said Conveyance. Thereafter balance of purchase price shall consist of monthly payments required by said note and trust deed provided in the event Seller cannot secure said release of liability from said note and trust deed. Seller may withhold delivery of conveyance and parties shall function under this Agreement until such release is obtained or Seller may deliver conveyance at any time sooner if Seller so elects.

* * *

Purchaser concurrently herewith executes and delivers to Seller a quitclaim deed to said property. Seller may at any time after default by the Purchaser in the performance of the obligations herein provided for, record said quitclaim deed. Said quitclaim deed shall be returned to Purchaser upon Purchaser's becoming entitled to a conveyance hereunder. (Emphasis supplied.)

Other provisions related to taxes on the property, title, and possession. Some of the sales agreements used by taxpayer varied from the form set out above; instead of the requirement that the seller deliver and the buyer accept conveyance of the property within 5 years after the first period installments had been made, the option was given to the buyer to require a conveyance of the property after 8 (in some agreements 12) years from the agreement date. (R. 126.)

Although the agreement called for the concurrent

assumption of the mortgage by the purchaser, to be used when property was conveyed to a purchaser, the document actually signed was the purchaser's guarantee of taxpayer's mortgage loan. *Even if title had passed before complete performance by the purchaser, the taxpayer would have remained primarily liable to the bank for the unpaid amount of the mortgage.*⁸ (R. 126-127.)

Taxpayer reported the following number of sales between 1942 and 1945 on the installment basis (R. 127) :

<u>Year</u>	<u>Stonecrest</u>	<u>Brookfield</u>
1942	349	103
1943	88	605
1944	9	-----
1945	91	-----
	<hr/> 537	<hr/> 708

The level of payments that the purchaser was required to make during the first 27 months was greater than the level of payments during the remaining period of the installment contract, the *difference* in level representing the *excess of purchase price* (less downpayment) *over* the original amount of the *mortgage loan*, plus interest on the excess. (R. 127.)

⁸ This finding is somewhat difficult to understand inasmuch as the Uniform Agreement of Sale expressly provides that purchaser execute an assumption of the mortgage and consent to taxpayer's release, as mortgagor. Coupled with this provision is the additional one that "in the event Seller cannot secure said release * * * Seller may withhold delivery of conveyance." (R. 126.)

In no single case under the Uniform Agreement of Sale did the taxpayer exercise its option to deed property to a purchaser. In no single case under any agreement of sale did a purchaser exercise an option to receive a deed prior to full payment of the total purchase price. (R. 127.)

All monthly payments on contracts were made directly to the taxpayer by the purchaser, and all monthly payments due on loans were made directly by the taxpayer to The San Francisco Bank (mortgagee) until the property was deeded to the purchaser, at which time the purchaser's contract account was closed and the unrealized profit applicable thereto was reported as income for that year. There was no intended synchronization between the time fixed for payments due from purchasers on homes sold under installment contracts and the time fixed for payments by taxpayer to the mortgagee-bank on its loans secured by deeds of trust on the properties sold on the installment plan. (R. 127-128.)

The mortgagee-bank carried all loans on its books and records as loans due from the taxpayer from the date each individual loan was granted until the closing out of the installment contract pertaining to the property on which taxpayer had executed a deed of trust as security for the loan. (R. 128.)

Every installment sales contract reflected on taxpayer's books was closed by taxpayer at the time the property covered by the contract was deeded to the purchaser. In substantially all cases the property covered by an installment sales contract was not deeded to the purchaser until the purchaser paid

the amount remaining due on the installment sales contract, and, concurrently with the receipt of such sum, taxpayer paid the bank the amount due on the loan which was secured by a deed of trust on the property covered by the installment sales contract.⁹ (R. 128.)

The taxpayers reported as income from the sales here in question that proportion of the installment payments actually received which the gross profit to be realized on the sale bore to the total contract price. *"Total contract price" was considered to be the amount for which a property sold, without any deduction for the amount of the mortgage.* (R. 129.)

In determining the percentage of each installment to be returned as income in the taxable years, the Commissioner, applying the rule of Section 29.44-2 of Treasury Regulations 111, included the amount of the mortgage in the "selling price" but excluded

⁹ In a few cases, by special arrangement between the taxpayer and purchaser, the taxpayer deeded property to a purchaser without requiring payment of the purchase price in full. In each of such cases, which in the aggregate represented only a small percentage of the total number of contracts, the deed was issued for individual and personal reasons and not as a matter of right on the part of either party. In such cases the purchaser made arrangements with the bank (mortgagee) to assume the mortgage and paid taxpayer any amount due on the installment sales contract in excess of the amount due on the deed of trust note. Taxpayer, in every such instance, closed such purchaser's installment sales contract and reported unrealized profit on the installment sale as income in that year. None of these transactions involved the exercise of any option given to either party under the Uniform Agreement of Sale (R. 128-129.)

the mortgage from the "total contract price" to the extent that it did not exceed taxpayer's basis in the property. Since in each of the sales made by both taxpayers the mortgage on the individual property *exceeded* the seller's basis, the Commissioner, in determining the deficiencies, added the *excess* to the basis in determining the "total contract price." In computing the "initial payments," the Commissioner included the purchaser's downpayment, payments on the purchase price during the taxable period when the sale was made, and the *excess* of the mortgage over the taxpayer's basis. Using this method, the Commissioner determined that 100% of the installment payments received ^{*[retained]*} by taxpayers during the years in question should be reported as profit for those years, with the exception of Stonecrest's 1945 taxable year, for which the percentage was 83.5. (R. 129-130.)

Before the Tax Court, taxpayers argued (Br. 17-53) that, under the above facts, taxpayers' sales of the mortgaged realty on the installment plan, while qualifying under Section 44(b) of the Internal Revenue Code of 1939, were not subject to the provisions of Section 29.44-2 of Treasury Regulations 111, which had been applied by the Commissioner in determining the deficiencies. Specifically, the taxpayers contended (Br. 17-39), and the Tax Court held (R. 138), that, under the Uniform Agreement of Sale, the purchasers of the homes neither took the realty "subject to" the outstanding mortgage nor assumed such mortgage. Accordingly, the Tax Court held that the Commissioner erred in deducting the

amount of the mortgage (to the extent it did not exceed taxpayers' basis) from the total contract price in determining the percentage of income from installment sales to be returned by taxpayers during the taxable years in question. Judge Tietjens held (R. 139), further, that the Commissioner erred in including the *excess* of the mortgage over the seller's basis in "initial payments."

The Commissioner's computation of Stonecrest's realized profit for 1942, based on stipulated figures (R. 43), appears as follows:

Total to be realized:

Total sales (including mortgage)	\$1,593,426.25
Cost of property sold (taxpayer's basis)	1,250,977.16
	<hr/>
Total profit	\$ 342,449.09

Total contract price:

Selling price	\$1,593,426.25
Less: Amt. of mortgage (\$1,396,000)	
limited to the vendor's basis	1,250,977.16
	<hr/>
Total contract price	\$ 342,449.09

*Percentage to be applied to collections
received in 1942 on contract price:*

Total profit to be realized (\$342,449.09) =	100%
Total contract price (\$342,449.09)	

In 1942, the following collections were received on the contract price and were computed by the Commissioner to be reportable, at 100%, as income to Stonecrest for that year (R. 43):

Mortgages on property sold	\$1,396,000.00
Less—Stonecrest's basis	<u>1,250,977.16</u>
Mortgage in <i>excess</i> of cost of property sold	\$ 145,022.84
Down payments received on property sold	104,335.97
Other collections on contract price	<u>15,187.68</u>
Total realized profit applicable to 1942	\$ 264,546.49
Less—Realized profit reported on return	<u>28,312.33</u>
Understatement of realized profit	<u><u>\$ 236,234.16</u></u>

The same method was followed by Commissioner in computing "initial payments" for both taxpayers for all of the taxable years in question. (R. 43, 63-65.)

STATEMENT OF POINTS TO BE URGED

The statement of points to be relied on as the basis for this proceeding is set forth in the printed record. (R. 146-148.) In substance, it is the Commissioner's position that, on this record, the Tax Court erred:

1. In failing to hold that the provisions of Section 29.44-2 of Treasury Regulations 111 here applied to taxpayers' sale of mortgaged realty on the installment basis. (R. 147.)

2. In failing to hold that under the terms of the agreement of sale, the purchasers of the mortgaged realty either assumed the mortgages or took the properties subject to the mortgages, within the meaning of Section 29.44-2 of Treasury Regulations 111. (R. 147.)

3. In failing to hold that Section 29.44-2 of Treasury Regulations 111 applies to all installment sales of mortgaged realty made subject to the mortgage. (R. 147.)

4. In construing Section 29.44-2 of Treasury Regulations 111 as applying only where (a) a purchaser takes realty subject to a mortgage or (b) assumes the mortgage. (R. 146-147.)

5. In holding that under the terms of the agreement of sale, taxpayers' purchasers of the mortgaged realty did not assume the mortgage or take the property subject to the mortgage within the meaning of Section 29.44-2 of Treasury Regulations 111 relating to the determination of the percentage of taxable income to be returned on the installment basis.

6. In holding that the Commissioner erred in subtracting from the total contract price the amount of the mortgage to the extent that it did not exceed taxpayers' basis in the property, for purposes of determining the percentage of income from installment sales to be returned by taxpayers during the taxable years in question, and also erred in including the excess of the mortgage over the basis in initial payments. (R. 147-148.)

7. In failing to uphold the action of the Commissioner in following Section 29.44-2 of Treasury Regulations 111, with the result that the amount of the mortgage, to the extent that it did not exceed taxpayers' cost basis, should be deducted from the selling price to determine the total contract price; and that the excess of the mortgage over basis was includible in determining the initial payment. (R. 148.)

8. In holding that G.C.M. 3048, VII-1 Cum. Bull. VII-1, 60 (1928) is indistinguishable from the instant case. (R. 148.)

9. In failing to uphold the deficiencies, as determined by the Commissioner. (R. 148.)

10. In that its opinion and decisions are contrary to law and the Regulations. (R. 148.)

SUMMARY OF ARGUMENT

The Tax Court erred, as a matter of law, in refusing to hold that Section 29.44-2 of Treasury Regulations 111 applies to taxpayers' installment sale of excess mortgaged realty, under which: (a) for purposes of determining "total contract price", existing mortgages should properly be treated as deductible from the selling price except to the limited extent that, at the time of sale, they do not exceed a taxpayer's lower cost basis; and (b) for purposes of determining the amount of "initial payments", the excess of the amount of the mortgage over taxpayer's basis should be taken into account in computing the percentage of income from installment sales returnable by the taxpayer as realized during the year of sale, within the meaning of Section 44 of the Internal Revenue Code of 1939.

The statute (Section 44 of the 1939 Code) permits a taxpayer, who elects to do so, to report qualifying sales of realty on an installment basis, returning, as income in a given year, "that proportion of the installment payments actually received * * * which the gross profit realized or to be realized when payment is completed, bears to the *total contract price*." (Emphasis supplied.) Specifically, it provides that such income is to be returned on such installment basis "Under regulations prescribed by

the Commissioner with the approval of the Secretary" and that the "*initial payments*" (emphasis supplied) are to embrace "payments received in cash or property * * * during the taxable period in which the sale * * * is made", other than evidences of indebtedness of the purchaser.

The regulation (Section 29.44-2 of Treasury Regulations 111), which the Commissioner contends is governing, provides that, in applicable cases, "the amount of the mortgage * * * shall be included as a part of the 'selling price', but the amount of the mortgage, to the extent it does not exceed the basis to the vendor of the property sold, shall not be considered as a part of the 'initial payments' or of the 'total contract price', as those terms are used in section 44 * * *." This regulation expressly applies "In the sale of mortgaged property * * * whether the property is *merely* taken *subject to* the mortgage or whether the mortgage is *assumed* by the purchaser." (Emphasis supplied.)

The validity of the regulation is not here in question and the sole issue presented is whether, under the Uniform Agreement of Sale employed by taxpayer-mortgagors in their sale of excess mortgaged (F.H.A. financed) residential properties, the Regulation applies. The Tax Court erroneously held that, under the agreement of sale, taxpayers' purchasers neither took subject to the existing mortgages nor assumed them, with the result that the excess of face over basis of the mortgages was excludible from the computation of initial payments. In consequence, taxpayers were permitted to spread the entire amount

of the *excess* over the life of the sales contract, by reporting, as installment income, that proportion of the installment payments actually received which the gross profit to be realized bore to the "total contract price", which, in turn, was considered to be the amount for which a property sold, without deduction for the amount of the mortgage.

A.

We contend that, under the uncontroverted facts here before the Court and even within the limited construction accorded Section 29.44-2 of Treasury Regulations 111 by the Tax Court, the regulation clearly applies. The Tax Court erred, as a matter of law, in holding that taxpayers' vendees neither took subject to the existing mortgages nor assumed them.

For purposes of applicability of the regulation, it is of no consequence whether the mortgagor's purchaser is an assuming or a non-assuming vendee. Under even the narrow construction adopted by the Tax Court the Regulation applies whether the purchaser merely takes subject to or assumes the existing excess mortgage. Under the federal tax law, as clearly pointed out by the Supreme Court in *Crane v. Commissioner*, 331 U.S. 1, when there is real and substantial benefit resulting to the mortgagor on his sale of mortgaged premises, it is *the realities*, rather than fine technical distinctions as to the personal or nonpersonal liability of the purchaser to the mortgagee, which must properly be viewed as controlling. Here, the realities make it clear that taxpayer-mort-

gagors, under the Uniform Agreement of Sale, were relieved of their necessity of making principal and interest payments in the real and substantial sense that their purchasers agreed to make such payments and they, in turn, agreed to turn them over to the mortgagee. Just as realistically the mortgagee becomes the beneficiary of the mutual promises made by the purchaser (to make the mortgage payments) and by the taxpayer-mortgagors (to turn the mortgage payments over to the mortgagee).

The result was achieved under the Uniform Agreement of Sale by (a) reciting taxpayers' execution of the \$4,000 promissory note to the mortgagee bank and the deed of trust securing such indebtedness; (b) reciting the full purchase price of \$4,450, thus making the payment of the mortgage indebtedness part of the consideration for the agreement of sale; (c) stating the fact that the prior executed deed of trust was duly recorded; (d) stating that the first period installment payments included 6 percent interest on the unpaid purchase price; (e) expressly providing that taxpayers were to apply the installments to the payment of the mortgage and the interest thereon; (f) providing further that the monthly installments payable were subject to increase or decrease in accordance with any increases or decreases provided for in the promissory note and the deed of trust; (g) providing that, after completion of the first period installment payments (*viz.*, \$47.40 for 27 months), taxpayers had the option to convey to the purchaser, in which event the purchaser was obligated to accept conveyance (and for

this purpose the purchaser was required to execute a formal assumption of taxpayers' mortgage obligation, for delivery to the mortgagee-bank); (h) providing that, after formal conveyance, the remaining payments made by the purchaser, together with interest (*viz.*, \$33.50) were to conform to the monthly payments called for in the promissory note and deed of trust; and (i) protecting against default prior to formal conveyance by providing that the purchaser execute a quitclaim deed to taxpayer-mortgagors.

Under these facts, we submit that the practical result of the agreement was that the taxpayers' purchasers, in effect, assumed the existing mortgages and, at the very least, took subject to such mortgages. Since the purchaser could only protect his property from foreclosure by making the mortgage payments, which were expressly conditioned on the taxpayers' obligation to act as the conduit, the mortgagee was for all practical purposes, the beneficiary exactly as it would be had the purchaser formally assumed. At the very least, the realty itself was made security for the mortgage indebtedness, so that the mortgagee's ever present right to foreclose in the event of default, made it clear that the purchaser had taken subject to the prior recorded deed of trust. In either view, the Regulation here applies.

B.

The same result follows when the inquiry is directed to whether taxpayers' purchasers took subject to the mortgage or assumed under the long established substantive test applied by the California

courts. Under the substantive real property law of California, in circumstances such as here obtained, it is not necessary to have a formal assumption to assert the mortgagee's right to a deficiency judgment against the purchaser from the mortgagor. The purchaser's personal liability to the mortgagee springs from the well known rule in equity that a creditor is entitled to the benefit of any obligations or securities given by his debtor to one who has become a surety of such debtor for the payment of the debt. Neither is it necessary that there should be formal promise, on the part of the purchaser, to pay the mortgage debt, so long as the purchaser's intention to assume the debt appears from a consideration of the entire instrument. The assumption may be made orally, or by separate instrument, or be implied from the transaction of the parties, or be shown by the circumstances under which the purchase is made, as well as by the language used in the agreement. *Hopkins v. Warner*, 109 Cal. 133, 136, 137-138, 41 Pac. 818. When there is no formal assumption but the purchase is made expressly subject to the encumbrance and the amount of the indebtedness thereby secured is included in and forms a part of the consideration of the conveyance, the substantive rule is the same. *White v. Schader*, 185 Cal. 606, 611, 198 Pac. 19. Obviously, the provisions of the Agreement of Sale which here was used, as detailed in Point A, *supra*, fully satisfied the California substantive test for an assumption on the part of taxpayers' purchasers.

With respect to the enforceability of the mortga-

gee's substantive right to proceed against the taxpayers' purchasers on their personal liability to pay the mortgage indebtedness, it is true that 1933 and 1935 California moratorium legislation, enacted as an emergency measure and not since repealed, serves to cut off the right to secure a deficiency judgment against taxpayers' purchasers. Section 580 (b) and (d), California Code of Civil Procedure. The statutory bar against enforceability, however, does not alter the fact that the question of whether or not the purchaser assumed is, for purposes of application of the regulation, essentially a question of substantive law. This proposition is underscored when consideration is directed to the fact that the Agreement of Sale was drafted for purposes of establishing the parties' substantive rights for a period of 20-25 years, whereas the temporary emergency moratorium legislation then on the books might be repealed at any time during the duration of the contract. In any event, giving full effect to the legislative abridgement of the mortgagee's right to rely on the purchaser's personal liability for the debt, the purchaser's status remains that of a non-assuming vendee who took subject to the mortgage and the mortgagee's right is preserved to recover on the debt the value of the security, which, in this case, is the residential property which the taxpayers sold. The governing regulation applies equally to property subject to a mortgage as to where the mortgage is assumed.

C.

Finally, we submit that the Tax Court erred in applying too narrow and limited a construction to

Section 29.44-2 of Treasury Regulations 111. Whereas under Points A and B, *supra*, we have demonstrated that the regulation is here clearly applicable—even *within* the narrow confines of the Tax Court's construction—we believe that the plain language of the regulation warrants a broader and more comprehensive construction than it has received below.

Under our view of the regulation, we believe the clause—"whether the property is merely taken subject to the mortgage or whether the mortgage is assumed by the purchaser"—is only illustrative in the sense that the regulation is designed to apply to all purchases of mortgaged realty. It should make no difference, for federal tax purposes, how the mortgagor's purchaser technically becomes committed on his purchase of the mortgaged premises. For purposes of computing installment income arising on the transaction, the amounts returnable in any given year should be computed by every such *mortgagor* on a consistent basis.

ARGUMENT

The Tax Court Erred In Holding the Agreements of Sale Not To Constitute Sales of Mortgaged Property Within the Meaning of Section 29.44-2 of Treasury Regulations 111 and In Failing To Apply the Terms of That Section In Determining the Percentage of Taxable Income To Be Returned On the Installment Basis

This case presents the single question of whether Section 29.44-2 of Treasury Regulations 111, promulgated under Section 44 of the Internal Revenue Code of 1939, applies to taxpayers' sales of F.H.A. financed houses during the taxable years here before the

Court. The Tax Court held that the Regulations did not apply. We contend that, as a matter of law, the Tax Court erred.

Section 44 of the 1939 Code, *supra*, grants permission to a taxpayer, who elects to do so, to report sales of realty on an installment basis. Insofar as is here pertinent, the statute provides:

SEC. 44. INSTALLMENT BASIS.

(a) *Dealers in Personal Property*.—Under regulations prescribed by the Commissioner with the approval of the Secretary, a person who regularly sells or otherwise disposes of personal property on the installment basis may return as income therefrom in any taxable year that proportion of the installment payments actually received in that year which the gross profit realized or to be realized when payment is completed, bears to the *total contract price*.

(b) *Sales of Realty and Casual Sales of Personalty*.—In the case * * * of a sale or other disposition of real property, if * * * the initial payments do not exceed 30 per centum of the *selling price* * * *, the income may, *under regulations prescribed by the Commissioner with the approval of the Secretary*, be returned on the basis and in the manner above prescribed in this section. As used in this section the term “*initial payments*” means the payments received in cash or property other than evidences of indebtedness of the purchaser during the taxable period in which the sale or other disposition is made. (Emphasis supplied.)

* * * *

(26 U.S.C. 1952 ed., Sec. 44.)

Under his express statutory authorization to promulgate Regulations, granted in Section 212(d) of the Revenue Act of 1926, c. 27, 44 Stat. 9, which was the substantially equivalent forerunner of Section 44, *supra*, the Commissioner promulgated Article 44 of Treasury Regulations 69, which for present purposes, was substantially the same as Section 29.44-2 of Treasury Regulations 111, *supra*, promulgated under the Internal Revenue Code of 1939. The regulation here in issue provides:

SEC. 29.44-2. *Sale of Real Property Involving Deferred Payments.*— * * *

* * * *

*In the sale of mortgaged property the amount of the mortgage, whether the property is merely taken subject to the mortgage or whether the mortgage is assumed by the purchaser, shall be included as a part of the "selling price," but the amount of the mortgage, to the extent it does not exceed the basis to the vendor of the property sold, shall not be considered as a part of the "initial payments" or of the "total contract price," as those terms are used in section 44 * * * and in this section. * * * (Emphasis added.)*

The taxpayers have not questioned the validity of the regulation. As Article 44 of Treasury Regulations 69, its validity was upheld by the Supreme Court in *Burnet v. S. & L. Bldg. Corp.*, 288 U.S. 406, where Mr. Justice McReynolds stated (p. 414):

Installment sales of real estate encumbered by liens give rise to many complications which Congress could not readily foresee. Accordingly, it entrusted to the Commissioner wide dis-

cretion in respect of details. And considering the practical requirements of the taxing system, we think the regulations now challenged constitute a fair attempt to effectuate the legislative intent. They are within the broad discretion granted to the Commissioner and violate no definite provision of the statute.

Earlier, the Board of Tax Appeals had consistently treated the regulation as valid and given full effect to its provisions with respect to the computation of the amount of profit realized in the year of transfer on the sale of mortgaged real property. See *Bosshardt v. Commissioner*, 4 B.T.A. 1262; *Dalriada Realty Co. v. Commissioner*, 5 B.T.A. 905; *Pacheco Creek Orchard Co. v. Commissioner*, 12 B.T.A. 1358; *Watson v. Commissioner*, 20 B.T.A. 270; *Fifty-three West Seventy-second Street, Inc. v. Commissioner*, 23 B.T.A. 164; and *Metropolitan Properties Corp. v. Commissioner*, 24 B.T.A. 220. See also *Lucas v. Schneider*, 47 F. 2d 1006, where the Sixth Circuit, reversing a lower court decision for the taxpayer, held the regulation (Article 44 of Treasury Regulations 69) was applicable to a sale of mortgaged realty, with the result that inclusion of the assumed mortgage excess in "initial payments" prevented the transaction from qualifying percentage-wise, as an installment sale, within the meaning of Section 212(d) of the Revenue Act of 1926.¹⁰

¹⁰ Under Section 212(d) of the 1926 Act, profits on the sale of realty could be computed on the installment sale basis if "initial payments" did not exceed 25% of the purchase price. In the cited case, inclusion of the assumed

Regulations substantially identical to the governing Treasury Regulations 111 (Section 29.44-2) were likewise earlier promulgated as Article 352 of Treasury Regulations 74 (Revenue Act of 1928); Article 352 of Treasury Regulations 77 (Revenue Act of 1932); Article 44-2 of Treasury Regulations 86 (Revenue Act of 1934); Article 44-2 of Treasury Regulations 94 (Revenue Act of 1936); Article 44-2 of Treasury Regulations 101 (Revenue Act of 1938); and Section 19.44-2 of Treasury Regulations 111, the first Regulations promulgated under the Internal Revenue Code of 1939. Subsequent to Section 29.44-2 of Treasury Regulations 111, the identical provision was included in Section 39.44-2(c) of Treasury Regulations 118, also promulgated under the Internal Revenue Code of 1939. Thus the well settled principle is here completely applicable that Treasury Regulations long continued without substantial change, applying to unamended or substantially re-enacted statutes are to be viewed as having received legislative approval and to have the force and effect of law. *Boehm v. Commissioner*, 326 U.S. 287, 292; *Commissioner v. Flowers*, 326 U.S. 465, 469; *Commissioner v. Wheeler*, 324 U.S. 542, 547, rehearing denied, 325 U.S. 892; *Helvering v. Griffiths*, 318 U.S. 371, 393; and *Sharon Herald Co. v. Granger*, 195 F. 2d 890, 894 (C. A. 3d).

mortgage excess of \$37,802.54, coupled with the cash down payment of \$13,066.27, served to increase the "initial payment" to an amount in excess of 25% of the purchase price of \$155,000, thus disqualifying the transaction for installment sales treatment under the 1926 Revenue Act.

The taxpayers' contention made before the Tax Court was, essentially, that they were entitled to the benefit of reporting income on their sale of houses under the favorable installment option provided in Section 44 of the 1939 Code but were not subject to the computation requirements prescribed by Section 29.44-2 of Treasury Regulations 111. Specifically, they argued that: (a) their purchasers neither *technically* assumed the mortgage nor took the realty "subject to" it, thus making Section 29.44-2 inapplicable to the sales transactions here involved (Opening Br. 17-39; Reply Br. 22-34); (b) the Commissioner's interpretation of Section 29.44-2, if adopted, would render the regulation invalid within the specific provisions of Section 44 of the 1939 Code (Opening Br. 40-53; Reply Br. 1-16, 21-22); and (c) the case of *Crane v. Commissioner*, 331 U.S. 1, to the extent relied on by the Commissioner, is irrelevant to the issues here presented (Opening Br. 53-57; Reply Br. 17-20).

The Tax Court did not deal specifically with taxpayers' contentions (b) and (c), *supra*, but regarded contention (a), *supra*, as controlling with respect to the applicability of Section 29.44-2 of Treasury Regulations 111, saying (R. 133):

Whether the respondent has properly determined the amount of income received by petitioners turns on whether a buyer from petitioners either assumed the mortgage on the property or took the property subject to the mortgage within the meaning of the regulation.

The Tax Court then applied a very narrow, and we submit erroneous, construction to Section 29.44-2 which depended upon: (a) treating the term "sale of mortgaged property" as embracing *only* the *two* situations referred to in the illustrative clause, "*whether* the property is *merely* taken subject to the mortgage or *whether* the mortgage is *assumed* by the purchaser" (emphasis supplied) (R. 133); and (b) applying an unduly restricted definition of *taking* "*subject to*" a mortgage (R. 133-134) and for *assuming* a mortgage (R. 134). The Tax Court then made reference to certain of the terms of the Uniform Agreement of Sale (R. 124-127) which it deemed controlling (R. 134-135) and concluded that taxpayers' purchasers had neither assumed (R. 135-136) nor taken "*subject to*" the existing mortgages (R. 136-137) "as those expressions are customarily used" (R. 138). Finally, the Tax Court stated (R. 137-138) that the Commissioner's position here is contrary to that adopted in G. C. M. 3048, VIII-1 Cum. Bull. 60 (1928), issued in January-June 1928, and added (R. 138) that the cases relied on by the Commissioner as authority for applying the regulation "are distinguishable."

As we shall demonstrate, the Tax Court erred as a matter of law in holding that Section 29.44-2 of Treasury Regulations 111 was here inapplicable. Under the Uniform Agreement of Sale, which taxpayers employed to transfer the excess-mortgaged realty, there can be no serious doubt that their purchasers, at the very least, took the property "*subject to*" the

existing mortgage. Moreover, there is ample authority for reaching the same conclusion under California real property law. In either event, even under the limited construction accorded the regulation by the Tax Court, the decision below should be reversed. However, we believe that the regulation properly warrants a broader and more comprehensive construction than the Tax Court here allowed. As a practical matter, the regulation was promulgated to apply, in determining percentage of taxable income, *inter alia*, to installment sales of excess-mortgaged realty such as are presented in the case at bar, i.e. to cases where the amount of the mortgage exceeds taxpayer's basis.

A. *The undisputed record facts clearly warrant the application of Section 29.44-2 of Treasury Regulations 111*

Under the undisputed facts of this case, it becomes unrealistic to accept the Tax Court's holding (R. 130-139) that Section 29.44-2 of Treasury Regulations 111 does not here apply.

Taxpayers' operations were directed to the construction of low-cost housing, financed by F.H.A. insured construction loans made by a San Francisco bank under individual notes and deeds of trust. Prior to execution of such notes and trust deeds, plans for the developments were submitted to the F.H.A. incident to securing its commitment to insure the loans, application for the loans was made to the bank, and a blanket deed of trust was executed, which was later released, *pro tanto*, on a completed unit basis, as the individual trust deeds were executed, preparatory to

sale on a house-by-house installment basis to individual purchasers. With respect to release from the blanket deed of trust, taxpayers' principal officers and their wives were released from their primary liability under these earlier executed blanket deeds of trust and taxpayer corporations remained liable on the individual deed of trust notes executed with respect to houses covered by installment sales contracts. (R. 122-123.)

With respect to the sale of the houses to purchasers, taxpayers required the execution by the purchaser of the following documents: (a) a "Mortgagor's Statement" contained in a "Mortgagee's Application for Mortgage Insurance," which was then filed with the F.H.A. by the lending bank, together with a "Consent to Substitution of Mortgagors Under Title VI";¹¹ (b) a "Uniform Agreement of Sale" between taxpayers and the purchasers; (c) a "Purchaser's Certificate," which acknowledged the purchaser's receipt of the property and contained his agreement to pay the mortgage debt; (d) a guarantee to the mortgagee bank of the purchaser's obligation on the mortgage loan; and (e) a quitclaim deed to the property in favor of taxpayer. (R. 123-124.)

A typical Uniform Agreement of Sale, referred to above, called for the payment of \$4,450, payable \$100 down, \$47.40 per month for 27 months, and \$33.50 per

¹¹ The "Mortgagor's Statement" contained information regarding the financial status of the mortgagee (*viz.*, purchaser) for the guidance of the F.H.A. in determining whether to insure a mortgage loan on the property being purchased. (R. 123.)

month "until purchase price and interest are paid in full." It recited that the Seller had already executed a promissory note for \$4,000 to the San Francisco Bank, and a trust deed to secure payment of the note, incorporating the recorded trust deed by reference. It stated that the designated monthly payments included interest and charges at the rate and as provided in taxpayers' note and trust deed for \$4,000, with the interest on the unpaid balance being at the rate of 6%. It stated that the installments were to be applied by taxpayer to the payment of the F.H.A. loan, with such installments being subject to increase or decrease, as provided for in taxpayer's note to the bank and deed of trust. Upon completion of payment of the first period installments (*viz.*, 27 months), the purchaser agreed to accept conveyance of the property at any time within five, eight or twelve years therefrom at taxpayers' option and assume the performance of taxpayers' unfulfilled obligations under the terms of taxpayers' promissory note and covering deed of trust. "For this purpose," the agreement recited, "Purchaser executes an assumption concurrently herewith, delivers the same to Seller, and the Seller is authorized to deliver said assumption to The San Francisco Bank upon delivery of said conveyance. Thereafter balance of purchase price shall consist of monthly payments required by said note and trust deed * * *." Further, the Agreement of Sale provided: "Purchaser concurrently herewith executes and delivers to Seller a quitclaim deed to said property. Seller may at any time after default by the Purchaser in

the performance of the obligations herein provided for, record said quitclaim deed. Said quitclaim deed shall be returned to Purchaser upon Purchaser's becoming entitled to a conveyance hereunder." (R. 124-126.)

In the case of each of the installment sales made by taxpayers, the existing mortgage on the property *exceeded* taxpayers' cost basis therein. (R. 129.)

With respect to the differential in monthly payments to be made by the purchaser during the first 27 months—*viz.*, \$47.40—and thereafter—*viz.*, \$33.50—the difference in level represented the excess of purchase price (less downpayment) over the original amount of the mortgage loan plus interest on the excess. (R. 127.)¹²

¹² In addition to the above-outlined record facts spelling out taxpayers' legal relationship to the San Francisco Bank (mortgagee) and the contractual obligations undertaken by themselves and their purchasers under the Uniform Agreement of Sale and pursuant to the F.H.A. financing arrangement, the Tax Court found: (1) neither the bank nor the F.H.A. retained an executed copy of the Purchaser's Certificate or the purchaser's guarantee of the loan made to taxpayers (R. 124); (2) although the Agreement of Sale called for the concurrent execution of an assumption of the mortgage by the purchaser, to be used when the property was formally conveyed, the document actually signed was the purchaser's guarantee of taxpayers' mortgage loan (R. 126-127); (3) in no single case, under the Uniform Agreement of Sale, did taxpayers exercise their option to deed property to a purchaser, nor did any purchaser exercise the option to receive a deed prior to full payment of the total contract price (R. 127); (4) all monthly payments on contracts were made directly to taxpayers by the purchaser and all monthly payments on loans were made by taxpayers to the

Under the above facts, it is submitted that the Tax Court's conclusion that taxpayers' vendees neither took the properties subject to the mortgage nor assumed it becomes highly unrealistic. Not only was the property, in every instance, subject to the prior recorded deeds of trust but the purchaser was required, by terms of the agreement, to accept the obligation of paying both mortgage principal and interest. The fact of the existence of the mortgage was expressly stated in the agreement, the fact that the installments were based on principal and interest payments due the mortgagee and would fluctuate in accordance with the terms of the F.H.A. loan was likewise made explicit, and the Seller's obligations to act as a conduit for purposes of turning over these mortgage payments to the San Francisco Bank was made a condition of the agreement. In addition, the purchaser was required to execute a guarantee

bank until the property was deeded to the purchaser (at which time the purchaser's contract account was closed with unrealized profit being reported as income in that year), there having been no intended synchronization between the time fixed for payments due from purchasers and the time fixed for taxpayers' payments to the bank on their loans (R. 127-128); (5) the mortgagee bank carried all loans on its books and records as loans due from taxpayers from the date each individual loan was granted until the closing out of the installment contract pertaining to the property on which taxpayers had executed a deed of trust as security for such loan (R. 128); and (6) taxpayers reported as income from the sales that proportion of the installment payments actually received which the gross profit to be realized bore to the "total contract price," which in turn, was considered to be the amount for which a property sold, without deduction for the amount of the mortgage (R. 129).

of the mortgage loan. For practical purposes, the substance of the transaction was that the purchaser, in effect, assumed the mortgage debt, with title, as a security device, being left in the seller. In any event, since title was not formally conveyed, the recitations in the agreement as to sellers' execution of the note and the Bank's recording of the mortgage, coupled with the express provision keying the installment payments to the principal and interest payments on the trust deed made it clear, beyond doubt, that the purchaser was, at the very least, taking the property subject to the mortgage.

Within the narrow construction it accorded Section 29.44-2 of Treasury Regulations 111, the Tax Court concluded (R. 135) that there was no assumption. It stated (R. 134):

Where a buyer assumes a mortgage on property, he pays the seller for the latter's redemption interest, and *in addition* promises the seller to pay off the mortgage debt. This promise of the buyer can *ordinarily* be enforced by the mortgagee. 5 Tiffany, *The Law of Real Property*, section 1435, 1436 (3rd ed. 1939); IV *American Law of Property*, sections 16,125, 16,127, 16.128-16.132 (1952). (Emphasis supplied.)

The Tax Court then reasoned (R. 135-136) that, since formal delivery and acceptance of conveyance of title, at the buyer's option, was not to take place until a specified period after the first-period installment payments had been made, there was no assumption because the mortgagee was not in a position to enforce the buyer's promise at the time the property

was sold. In the premises, we submit, this conclusion is unrealistic.

There is certainly no question that taxpayers' purchasers committed themselves, under the Uniform Agreement of Sale, to pay taxpayers for their redemption interest and, *in addition*, promised *the sellers* that they would pay off the mortgage debt. Express provision was made for such payments in the agreement. Nor does the contractual postponement of formal transfer of title prevent the installment sales transaction from amounting to an assumption within the broad outline of the quoted rule applied by the Tax Court, so long as the mortgagee secures its right to receive the mortgage principal and interest payments, which the purchaser promises the seller he will pay. Here, the mortgagee's right to receive such payments, made by the purchaser, was expressly secured by providing, in the agreement, that (R. 125): (a) the installments would include interest and charges provided for in the note and trust deed, which was incorporated by reference; (b) such installments were to be applied by taxpayers to the payment of the balance of purchase price and interest on the F.H.A. loan; and (c) such monthly installments would be subject to increase or decrease as provided for in said note and trust deed. Under such an arrangement and with taxpayers retaining formal title but securing a quitclaim deed from the purchaser, any additional direct promise to pay, made by the purchaser to the mortgagee, would amount to no more than surplusage. Looking to the realities of the sale and purchase transaction rather

than to the form of selected and isolated features of the transaction, it can clearly be seen that, for all practical purposes, taxpayers' purchasers assumed the underlying mortgages.

Under the same narrow construction of the regulation, the Tax Court concluded (R. 136-137) that the purchasers had not taken the property "subject to" the underlying mortgages. Again relying on 5 Tiffany, Law of Real Property (3d ed., 1939), Sec. 1435, p. 365, the Tax Court stated, *inter alia* (pp. 136-137):

Here there was no understanding that the debt was to be satisfied out of the property; instead it was explicitly provided in the agreement of the parties that the seller was to make the payments on the mortgage debt until there was a conveyance of the property. * * *

In this case there was no reduction in selling price because of the mortgage and it seems clear that the seller was intended to pay the mortgage debt out of the proceeds of the sale. By his interpretation respondent would extend the application of the regulation to every sale of property that has a mortgage on it. While in a sense every sale of mortgaged property is subject to a mortgage since the property remains liable to have the mortgage debt satisfied from it, we think the expression was used in the regulation in its customary meaning, to define the obligations of the parties to a sale of property with respect to the mortgage debt.

The Tax Court's conclusion that taxpayers' purchasers did not take possession "subject to" the mort-

gage is also unrealistic. Ample warrant can be found in the record and in the decided cases for a contrary holding on this issue. In the first place, the Uniform Agreement of Sale recites (R. 124-125):

Seller heretofore executed a promissory note to the San Francisco Bank in the principal sum of \$4,000.00, and a trust deed conveying said real property to E. T. Kruse and Parker S. Madux, as trustees, to secure the payment of said note (pursuant to the provisions of Title 6, F.H.A.). Reference is hereby made to the record of said trust deed in the office of the Recorder of the City and County of San Francisco, and the same is hereby incorporated herein.

This express incorporation of the mortgage by reference, we submit, clearly indicates on the face of the agreement under which purchaser took possession that he was taking, at the very least, subject to the prior recorded deed of trust. The additional provisions in the agreement relating to the parties' mutually conditioned promises to pay mortgage principal and interest only strengthen this conclusion.

Essentially, the Tax Court's reasoning with respect to this issue is that the purchaser here did not take "subject to" the mortgage because there was no agreement that the debt was to be satisfied out of the property and the purchase price was not reduced by reason of the mortgage. Realistically, neither of these arguments should here be accorded weight. Under the agreement of sale, as between the buyer and the seller, the latter had no obligation to satisfy the mortgage debt, since the buyer's obligation covered

payment in full. With respect to the property itself, there *was* an understanding. By virtue of the executed quitclaim to the seller, which the seller was authorized to record should the purchaser default, the land itself would revert to the taxpayers subject to the mortgagee's rights therein. Finally, see *Pacheco Creek Orchard Co. v. Commissioner*, 12 B.T.A. 1358, for the proposition that, for purposes of applying the regulation, whether or not the purchase price is reduced by the amount of the mortgage makes no difference as a factor in determining that a purchaser takes "subject to" the mortgage. In that case, the purchase price was stated in the contract for deed to be \$210,808.88, which amount included a mortgage of \$73,000. Construing the underlying lease and the contract for deed, the Tax Court applied Article 44 of Regulations 69 and concluded (p. 1364):

In the instant case, there was no assumption of the mortgage in express terms, *but the property was purchased subject to the mortgage* and the purchaser paid it together with the interest thereon. [Emphasis supplied.]

It is interesting to note that the Tax Court, in its opinion (R. 138), makes no serious effort to distinguish the *Pacheco Creek Orchard Co.* case, *supra*. See also *Metropolitan Properties Corp. v. Commissioner*, 24 B.T.A. 220.

As we have demonstrated above, the facts here realistically viewed, furnish ample warrant for holding that, as a practical matter, taxpayers' purchasers either assumed the underlying mortgages pursuant to the transaction of purchase and sale or took the

properties "subject to" the underlying mortgages. In either event, even under the narrow construction accorded Section 29.44-2 of Treasury Regulations 111 by the Tax Court, the regulation is here clearly applicable. The Tax Court's objection that (R. 137) "By his interpretation respondent would extend the application of the regulation to every sale of property that has a mortgage on it" is, at best, misleading. The regulation, by its own terms, is applicable in cases, such as this, involving the sale of mortgaged property where the amount of the mortgage *exceeds* the vendor's basis. Moreover, in the case of such sales, the Supreme Court has adopted the view which we have advanced above, namely, that, for federal tax purposes, in characterizing a mortgage transaction as an assumption or as a taking "subject to", it is the *realties* which should be viewed as controlling. *Crane v. Commissioner*, 331 U.S. 1.

In the *Crane* case, the taxpayer inherited an apartment building subject to a mortgage of \$255,000 and unpaid interest of \$7,000, took depreciation on a value equal to this encumbrance basis for several years, and then sold the property to a third party for \$2,500, subject to the \$255,000 mortgage. The Court held that, under Section 111(b) of the 1939 Code the amount realized by taxpayer on the sale included the amount of the mortgage and was not to be limited to her equity of \$2,500. In this connection, Chief Justice Vinson stated (p. 14):

* * * we think that a mortgagor, not personally liable on the debt, who sells the property subject to the mortgage and for additional consider-

ation, realizes a benefit in the amount of the mortgage as well as the boot. If a purchaser pays boot, it is immaterial as to our problem whether the mortgagor is also to receive money from the purchaser to discharge the mortgage prior to sale, or whether he is merely to transfer subject to the mortgage—it may make a difference to the purchaser and to the mortgagee, but not to the mortgagor. Or put in another way, we are no more concerned with whether the mortgagor is, strictly speaking, a debtor on the mortgage, than we are with whether the benefit to him is, strictly speaking, a receipt of money or property. We are rather concerned with the reality that an owner of property, mortgaged at a figure less than that at which the property will sell, must and will treat the conditions of the mortgage exactly as if they were his personal obligations. If he transfers subject to the mortgage, the benefit to him is as real and substantial as if the mortgage were discharged, or as if a personal debt in an equal amount had been assumed by another.

Under such a rationale, we submit, the realities of the instant sales of excess mortgaged property serve to produce identical benefit to the taxpayers, whether the purchaser is viewed as taking “subject to” or as assuming the mortgage—*viz.*, provision is made for payment of the underlying deed of trust, including the amount of the excess over basis.

In the Tax Court below, taxpayers argued against the applicability of the *Crane* case (Opening Br. 53-57) as having no bearing on issues arising under Section 44 of the 1939 Code, dealing with installment

sales. The issue for which we rely on the *Crane* decision, however, is not one of realization versus recognition (*Commissioner v. South Texas Co.*, 333 U.S. 496); on the contrary, our reliance on *Crane* is for the broad principle, enunciated, *supra*, that in the presence of substantial benefit to the mortgagor on the sale of mortgaged realty, the realities, rather than fine distinctions should be viewed as controlling, irrespective of whether the purchaser is treated as an assuming or nonassuming grantee. The irrelevance of the distinctions insisted upon by taxpayers and the Tax Court, as well as the general applicability of the principle for which we contend, is underscored when the Court's conclusion, set forth, *supra*, is read with the passage immediately preceding it (331 U.S. 1, 13):

Petitioner concedes that if she had been personally liable on the mortgage and the purchaser had either paid or assumed it, the amount so paid or assumed would be considered a part of the "amount realized" within the meaning of § 111 (b).³⁴ The cases so deciding have already repudiated the notion that there must be an actual receipt by the seller himself of "money" or "other property" in their narrowest senses. It was thought to be decisive that one section of the Act must be construed so as not to defeat the intention of another or to frustrate the Act as a whole³⁵ and that *the taxpayer was the* "bene-

³⁴ *United States v. Hendler*, 303 U.S. 564; *Brons Hotels, Inc.*, 34 B.T.A. 376; *Walter F. Haass*, 37 B.T.A. 948. See *Douglas v. Willcuts*, 296 U. S. 1, 8.

³⁵ See *Brons Hotels, Inc.*, *supra*, 34 B.T.A. at 381.

ficiary" of the payment in "as real and substantial [a sense] as of the money had been paid it and then paid over by it to its creditors." ³⁶ [Emphasis supplied.]

³⁶ See *United States v. Hendler*, *supra*, 303 U. S. at 566.

It is our contention that the realistic benefit resulting to taxpayer-mortgagors on their sale of the mortgaged property by reason of their purchasers' agreement to pay the entire mortgage indebtedness compels the conclusion that, for all practical purposes, taxpayers' purchasers either assumed or, at the least, took the property "subject to" the underlying mortgages. The *Crane* case supports this view and emphasizes the error in the unrealistic and technically narrow interpretation accorded the regulation by the Tax Court below. The broad applicability of the *Crane* rationale also finds support in the Second Circuit's decision in *Commissioner v. Fortee Properties*, 211 F. 2d, 915. There the late Judge Frank stated (p. 916):

While the *Crane* case can literally be distinguished as involving a different section and a different type of transaction, we think both the reasoning and spirit of the opinion are applicable here. * * * satisfaction of a non-assumed mortgage, by payment to the mortgagee, benefits taxpayer in the case at bar. *In practical terms*, for the purpose of protecting his property from foreclosure, where the value of the property is greater than the amount of the mortgage, the taxpayer-mortgagor has to treat

the obligations of a non-assumed mortgage as if they were his personal obligations. Payment to the mortgagee relieved the owner of this necessity. [Emphasis supplied.]

Similarly here, taxpayers, under their purchasers' commitment to pay the mortgage debt, were relieved of the necessity of making such payments and, under the express terms of the Uniform Agreement of Sale, were made the beneficiaries of such payments in the real and substantial sense that they bound themselves to receive the payments and turn them over to the mortgagee-Bank. *Crane v. Commissioner*, 331 U.S. 1, 13. Such benefit is identical to that which will result to a mortgagor, on his sale of mortgaged realty, by reason of his purchaser's payment of the mortgage debt to which he has taken subject or which he has assumed. Accordingly, as a practical matter, the regulation here applies.

Nor is this conclusion less certain when viewed in the light of the findings set out in footnote 12, *supra*. (1) That the "Purchaser's Certificate" came to the Bank's attention, thus confirms the bank's consent to the purchaser's payment of taxpayers' obligation by executing the Uniform Agreement of Sale. Since the obligation was expressly incorporated in the Agreement, there was no practical necessity for either the Bank's or the F.H.A.'s retention of copies of the "Purchaser's Certificate" or the purchaser's guarantee of the loan. (2) Since all of the contracts heretofore the Court involve sales agreements where no conveyance was actually made to the purchaser, it makes no practical difference that the assumptions

agreed to in the sales contract were not actually signed but instead guarantees of taxpayers' mortgage loan. The contractual obligation entered into by the purchaser to execute formal assumptions could undoubtedly have been enforced in equity. Since formal assumptions were not, in fact, used, the distinction here is one without a difference. (3) As indicated in (2), *supra*, since taxpayers did not require any formal assumptions in view of the fact that no options to deliver and receive deeds were exercised, the purchaser's personal liability for the mortgage indebtedness remained, throughout the transaction, an obligation created by contract, both express and implied from all of the instrument's terms as well as from the surrounding circumstances. Accordingly, this finding is academic. (4) The fact that, under the Uniform Agreement of Sale, monthly payments were made directly to taxpayers, with no intended synchronization between the time of the purchaser's making such payments and taxpayers' remitting to the mortgagee, has no real significance. The purchaser's obligation to pay was fixed under the Agreement of Sale; taxpayers' obligation to remit was likewise fixed. The practical reason for channeling the payments through as a conduit, was that the difference between the amount paid to taxpayers and the amount remitted to the bank represented their profit on the transaction. Whether synchronization of the respective parties' payments existed or not, the mortgagee, by reason of taxpayers' notes and trust deeds retained its right to receive payment of the indebtedness. (5) The Bank's method employed in keeping

its accounts with respect to the transaction can in no sense be treated as determinative of the liability of taxpayers' purchasers. Taxpayers, under the Agreement of Sale, were obligated to remit the designated monthly payments called for in the note and deed of trust. The device of using taxpayers as a conduit for channeling the purchasers' payments to the bank made it possible for the bank to account only for the total payments due it, while taxpayers, in turn, accounted for their own profits. As a result, the bank's bookkeeping responsibility was simplified. Moreover, taxpayers' method employed for reporting on the installment basis is in no sense controlling. On the one hand, it is self-serving. In any event, the terms of Section 29.44-2 of Treasury Regulations 111 makes it both incorrect and irrelevant.

Neither are taxpayers justified in placing reliance, as they attempted to do below, on A.R.M. 140, 5 Cum. Bull. 90 (1921) (Reply Br. 24) and on G.C.M. 3048, VII-1 Cum. Bull. 60 (1928) (Opening Br. 36). Actually, A.R.M. 140 was issued in 1918 and dealt with Article 117 of Regulations 33 (revised) promulgated under the Revenue Act of 1917. Under these early Regulations, in determining the amount of initial payments, it was the practice to consider mortgages assumed as the equivalent of cash. The question there before the Commissioner's office for determination was whether or not there had been an assumption under a pre-1926 regulation dissimilar to Section 29.44-2 of Treasury Regulations 111. As for G.C.M. 3048, *supra*, the facts upon which it was predicated are clearly distinguishable from the facts

of the instant case. The ruling concerned a so-called "reducing mortgage" under which the vendor, retaining title until the property was paid for, could at any time encumber it by mortgage to the extent of the amount then remaining due under the contract. In view of the uniqueness of the arrangement, the General Counsel was of the opinion that as of the year of sale it was impossible definitely to determine either that the property would ever be taken subject to a mortgage or that the mortgage ever would be assumed by the purchaser.

Finally, it may be observed that the taxpayers made an equitable argument to the Tax Court (Opening Br. 18) based on the fact that the Commissioner's application of Section 29.44-2 of Treasury Regulations 111 results in taxing the entire profit on these contracts within approximately the first twenty-seven months. They supplemented this contention by arguing at length (Opening Br. 25-32) that application of the regulation would here be incompatible with the statutory requirement, under Section 44, that the requisite proportional amounts of installment payments should be returned over the period of the contract as actually received. The contention was that the entire amount of the profit would eventually be returned over the period of the contract life, and that there was no necessity for application of the regulation to include the excess of the amount of the mortgage basis in initial payments in the year of sale.

The short answer to this argument against taxing the major part of the profit during the first twenty-seven months of the contract is that taxpayers

themselves arranged the transaction so that their profit would be received during the so-called twenty-seven months' first period, during which time the installments amounted to \$47.40, as contrasted to subsequent monthly installments over the contract life of only \$33.50, which approximated the amount due the mortgagee as principal and interest. (R. 124, 127.) Moreover, it is not the taxation of the first-period profit increment which is placed in issue by application of the regulation; under Section 29.44-2, it is the inclusion of the mortgage excess in "initial payments," for computation purposes, which is in issue. With respect to taxpayers' contention that there is here no necessity for application of the regulation (Opening Br. 31), it is sufficient to observe that the unusual circumstance which calls for the application of the regulation in the case of a sale of mortgaged realty is the fact that the mortgage is *excessive* in that the amount advanced by the mortgagee exceeds the taxpayers' basis in the property. A taxpayer is not required to use the installment basis; it is his voluntary election. Whenever a taxpayer elects to report his sales of excessively mortgaged realty to assuming and/or nonassuming purchasers on the installment basis, as was here the case, the regulation is clearly applicable. In upholding the validity of the regulation in *Burnet v. S. & L. Bldg. Corp.*, *supra*, the Supreme Court pointed this out, stating (288 U.S. 406, 414-415):

The Commissioner's treatment of *the excess* of the mortgages on the 83rd Street property over the base cost followed the general purpose

to place reasonable limitation upon the spread of the tax. It was appropriate *in the unusual circumstances presented*—certainly not prohibited. It was a practical way to accomplish the end. Some possible departure from the method prescribed for ordinary circumstances is not enough to destroy what he deemed necessary to meet unusual conditions.

The excess of \$77,967 under the sale agreement would never actually come into the vendor's hands, but it represented part of the admitted profits and was subject to taxation. No positive provision in the statute required that it be spread over subsequent years, and we think there was nothing illegal or oppressive in treating this as if an actual payment. *The taxpayer has been treated more leniently than if required to report upon the accrual basis.* The Regulations were not contrary to any positive provisions of the statute and, as said by the Board of Tax Appeals, were "both equitably and legally sound." [Emphasis supplied.]

- B. *Under California law, the undisputed record facts clearly warrant a holding that taxpayers' purchasers either took the properties "subject to" or assumed the existing mortgages, within the meaning of Section 29.44-2 of Treasury Regulations 111***

We have developed in Part A, *supra*, our contention that, as a matter of federal tax law, the Tax Court erred in holding under the facts obtaining, that Section 29.44-2 of Treasury Regulations 111 is not here applicable. The practical realities of these transactions bring them within the ambit of the Regulations.

Further, however, as an independent ground for reversing the Tax Court's decision below, we submit that, under California law, the conclusion is also warranted that taxpayers' purchasers either assumed the underlying mortgages or, at the least, took subject to them. In this connection, it is interesting to observe that, whereas the Tax Court viewed the applicability of the regulation (R. 133) as turning technically on "whether a buyer * * * either assumed * * * or took * * * subject to the mortgage" "and taxpayer relied heavily below (Opening Br. 43-45; Reply Br. 3-4, 15-17, 28-29) on the Sixth Circuit's decision in *Lucas v. Schneider, supra* (where the basis for construing an assumption turned on a purchaser's personal liability to the mortgagee under Kentucky law), no attempt was made by either the taxpayers, on brief, or by the Tax Court, in its opinion, to determine the purchasers' technical status as assuming or nonassuming vendees under the law of California. Instead, taxpayers based their technical argument on Osborne's Handbook on the Law of Mortgages (1951) (Opening Br. 22); Paton's Advanced Accounting (1941) (Opening Br. 37); and 5 Tiffany, Law of Real Property (3d ed.), which was cited by the Tax Court (R. 134, 137) along with IV American Law of Property (1952) (R. 134), as authority for the technical determinations made below—*viz.*, that taxpayers' purchasers neither assumed the excess mortgages nor took subject to them. Since the real property mortgage transaction here under review was effected in California,

we believe an examination of the law of that state will, at least, serve to emphasize the error in the Tax Court's decision.

For purposes of applicability of the regulation, it is necessary, under the Tax Court's view, that the taxpayers' purchaser either take subject to the existing mortgage or assume. Under state real property law, in contradistinction to the adjective aspects of enforceability, this is, of course, a question of substantive law. In California, the substantive issue of whether a purchaser of mortgaged realty takes subject to the mortgage (*viz.*, incurring personal liability to the mortgagee) has frequently arisen in cases where the mortgagee is seeking to obtain a deficiency judgment against the mortgagor's grantee. In a particular case, absent any formal language expressly providing for assumption, the question has been regarded by the California courts as one of intent—*viz.*, a question of fact. *Hopkins v. Warner*, 109 Cal. 133, 41 Pac. 818; *White v. Schader*, 185 Cal. 606, 198 Pac. 19 (1921); *Hibernia Sav. & Loan Soc. v. Dickinson*, 167 Cal. 616, 621, 140 Pac. 265; *Andre v. Stilson*, 37 Cal. App. 2d 334, 338-339, 99 P. 2d 557 (1940); *Banta v. Rosasco*, 12 Cal. App. 2d 420, 422, 55 P. 2d 601. The California Supreme Court stated the rule in *Hopkins v. Warner*, *supra*, as follows (pp. 136, 137-138):

The right of the plaintiffs [*viz.*, mortgagees] to maintain this action [*viz.*, to secure a deficiency judgment] against the appellants [*viz.*, the purchasers of the mortgaged premises] springs from the well-known rule in equity that a

creditor is entitled to the benefit of any obligations or securities given by his debtor to one who has become a surety of such debtor for the payment of the debt (Sheldon on Subrogation, sec. 85; Jones on Mortgages, sec. 755; Pomeroy's Equity Jurisprudence, sec. 1206; *Keller v. Ashford*, 133 U.S. 622; *Crowell v. Currier*, 27 N.J. Eq. 154; *William's v. Naftzger*, 103 Cal. 438).

* * * It is not necessary that there should be a formal promise, on the part of the grantee, to pay the mortgage debt, in order to render him liable therefor, if his intention to assume the debt appears from a consideration of the entire instrument. The obligation may be made orally or in a separate instrument; it may be implied from the transaction of the parties, or it may be shown by the circumstances under which the purchase was made, as well as by the language used in the agreement. (Jones on Mortgages, sec. 748; *Canfield v. Shear*, 49 Mich. 313; *Heid v. Vreeland*, 30 N.J. Eq. 591).

Again, in *White v. Schader*, *supra*, the California Supreme Court stated (p. 611):

* * * it is well-settled that where the payment of a mortgage forms part of the consideration of a conveyance that the grantee is bound to pay the same. The rule is thus stated in *Brosseau v. Lowy*, 209 Ill. 405 [70 N.E. 901]" "It is well established that when a party purchases premises which are encumbered, to secure the payment of indebtedness, and assumes the payment of the indebtedness as a part of the purchase money, the premises purchased are in his hands a primary fund for the payment of the debt, and it is his duty to pay it. (*Lilly v.*

Palmer, 51 Ill. 331; *Russell v. Pistor*, 3 Seld. (7 N.Y.) 171.) And the rule is the same, although there be no assumption of payment of the indebtedness, if the purchase be made expressly subject to the incumbrance, and the amount of the indebtedness thereby secured is included in and forms a part of the consideration of the conveyance. (*Lilly v. Palmer*, *supra*; *Comstock v. Hitt*, 37 Ill. 542; *Fowler v. Fay*, 62 Ill. 375; *Russell v. Pistor*, *supra*; *Ferris v. Crawford*, 2 Denio, 598.)" (See also *Tichenor v. Dodd*, 4 N.J. Eq. 454.)

Under the rationale of these California decisions, it appears clear that taxpayers' purchasers, under the Uniform Agreement of Sale, assumed the payment of the mortgage indebtedness, owing from taxpayers to the bank. The agreement expressly recited taxpayers' execution of the \$4,000 promissory note to the San Francisco Bank and the deed of trust securing such indebtedness. It stated, as the purchase price, the full amount of \$4,450, thus making the payment of the mortgage indebtedness part of the consideration for the agreement of sale. The fact that the prior deed of trust was recorded was also expressly stated; as was the fact that the first series of installment payments included interest at 6% on the unpaid balance of the purchase price. In addition, the agreement expressly provided that taxpayers were to apply the installments to the requirements of the loan and to the payment of the purchase price and the interest thereon. It provided further that monthly installments payable were subject to increase or decrease in accordance with any increases

or decreases provided for in the promissory note and the deed of trust. Finally, it provided that, after completion of the first period installment payments, taxpayers had an option to convey to their purchasers, in which event the purchaser was obligated to accept conveyance, and, for such purpose, the purchaser was required to execute an assumption of taxpayers' mortgage obligation, for delivery to the bank. After conveyance, the remaining payments made by the purchaser (together with interest) were to conform to the monthly payments called for in the promissory note and deed of trust. To protect against default prior to conveyance, the purchasers were required to execute quitclaim deeds to taxpayers. (R. 124-126).

Viewing the express provisions of the Uniform Agreement of Sale, *supra*, as a whole, it is compellingly clear that the intent of the parties thereto was that taxpayers' purchasers, upon the execution of the agreement, were obligating themselves to pay the outstanding mortgage indebtedness owing to the bank by reason of taxpayers' prior execution of the recited \$4,000 promissory note and covering deed of trust.

First, as a matter of formal promises, the purchaser was under contractual obligation to pay taxpayers installment payments "during the first [*viz.*, \$47.40] and second [*viz.*, \$33.50] periods" which expressly included "interest and charges at the rate and as provided for in said note and trust deed upon that portion of purchase price represented thereby [*viz.*, \$4,000]" (emphasis supplied); tax-

payers, in return, were obligated to apply "Said installments * * * to the requirements of said F.H.A. loan and to the payment of the balance of purchase price and interest thereon" (emphasis supplied). (R. 125). Under the established substantive rule of *Hopkins v. Warner*, *supra*, this, in California, amounted to an assumption by formal promise, not even calling for resort to oral expressions of intent, implication, or consideration of the surrounding circumstances since the mortgage debt (*viz.*, \$4,000) was expressly made a part of the consideration for the sale. See also *Banta v. Rosasco*, 12 Cal. App. 2d 420, 422-423, 55 P. 2d 601, which cites the *Hopkins v. Warner* rule, with approval.

Second, even were the parties' intent to have the purchaser assume not thus expressly spelled out, the identical intent is unmistakably apparent from a consideration of the entire instrument. Thus, the keying of the first period installment payments to the interest and charges provided in the note and trust deed, the requirement that they be applied against the requirements of the F.H.A. loan (which underpinned taxpayers' mortgages), the purchaser's contractual obligation to execute an assumption, the keying of installment payments to fluctuations in the amount of payments called for in the promissory note and trust deed, the provision that post-conveyance installments conform to the requirements of the note and trust deed, and the execution by the purchaser of a quitclaim (to be recorded in the event of a default) all combine to evidence an intent, clear beyond doubt, that the purchaser, upon execution of

the agreement, became obligated to pay the mortgage indebtedness. Prior to formal conveyance, the mortgagee's right against the purchaser "springs from the well known rule in equity that a creditor is entitled to the benefit of any obligation or securities given by his debtor to one who has become a surety of such debtor for the payment of the debt." *Hopkins v. Warner*, 109 Cal. 133, 136, 41 Pac. 868. Accordingly, upon default, the bank could have the quitclaim recorded, foreclose and sell the land, and under the long established California substantive rule, would have the right to secure a deficiency judgment against the purchaser.

Third, as additional evidence of the intent, which pervades this entire transaction, that taxpayers' purchasers assumed the mortgage indebtedness, we have the buttressing surrounding circumstances. Here, it becomes pertinent that simultaneously with the execution of the Uniform Agreement of Sale the purchaser executed as part of a "Mortgagor's Statement," a "Purchaser's Certificate," acknowledging receipt of the property and the purchaser's agreement to pay the mortgage debt. The significance here is that the "Mortgagor's Statement," and the included "Purchaser's Certificate," were executed for the mortgagee bank, which filed the same with the F.H.A., together with the "Consent to Substitution of Mortgagors Under Title VI." Accordingly, the mortgagee bank, being apprised of the purchase transaction and the purchaser's financial status, for all practical purposes consented to the purchase trans-

action when it filed the "Mortgagee's Application For Mortgage Insurance" with the F.H.A. That the parties' intent was to effect an assumption of the mortgage indebtedness by the purchaser is evidenced by the bank's applying for the loan insurance on the basis of the purchaser's statements concerning his financial responsibility, as well as by its filing the "Consent to Substitution of Mortgagors Under Title VI," and, more particularly, by the express agreement extracted from the purchaser in the Uniform Agreement of Sale, whereby he agreed to execute an assumption for delivery to the bank upon delivery of a conveyance. For purposes of California substantive law, it can thus be seen that the rule for assumption is again satisfied since "The obligation may be made * * * in a separate instrument; it may be implied from the transaction of the parties, or it may be shown by the circumstances under which the purchase was made as well as by the language used in the instrument." *Hopkins v. Warner, supra; Hibernia Sav. & Loan Soc. v. Dickinson*, 167 Cal. 616, 621, 140 Pac. 265; *Andre v. Stilson*, 37 Cal. App. 2d 334, 339, 99 P. 2d 557.

From the foregoing it can be clearly seen that the Tax Court erred in holding (R. 135):

The * * * provisions of the agreement make it clear that there was no assumption of the mortgage when a property was sold by petitioners.

As has been pointed out above, under California substantive law, it is not necessary to have a formally executed assumption to create a right in the mort-

gagee to proceed against the purchaser from the mortgagee on his personal liability for payment of the mortgage indebtedness. Here, prior to conveyance (at which time a formally executed assumption was, by terms of the contract, to become operative) the purchaser was personally liable for the indebtedness under the long established equitable principle that the creditor bank could avail itself of its debtor's contractual rights, *qua* surety, against such purchaser.

The California substantive rule, developed in the cases cited above, makes it clear that, under state law, for purposes of the applicability of Section 29.44-2 of Treasury Regulations 111, taxpayers' purchasers here assumed the existing mortgages. This follows from the fact that the question of whether they assumed or took subject to the mortgage is essentially a question of substantive law. However, with respect to the *enforceability* of the mortgagee's right, in California, to proceed against such purchasers on their personal liability, it must be observed that emergency moratorium legislation, initially enacted in California in 1933 and never repealed, cuts off the mortgagee's right to secure such a deficiency judgment. See Section 580(b) and (d) California Code of Civil Procedure, Stats. 1st Ex. Sess., 1940, ch. 29, § 2; *Mortgage Guarantee Co. v. Sampsell*, 51 Cal. App. 2d 180, 185, 124 Pac. 2d 353. Since this legislation was introduced as a temporary emergency measure (*Bank of America, Nat. T. & S. Ass'n v. United States*, 84 F. Supp. 387 (S.D. Cal.)),

it can readily be seen that while it suspends the mortgagee's right to deficiency judgment against the assuming grantee, an installment sale contract contemplating 20-25 years for completion of performance must anticipate that Sections 580(b) and (d) *supra*, are not necessarily of indefinite duration.

In any event the protection thus afforded the purchaser from personal liability, as an assuming grantee, will not affect the liability of the property, in other words transform his liability to that of a non-assuming grantee, who takes subject to the existing mortgage. Thus it has been held that Sections 580 and 726 of the California Code of Civil Procedure indicate a legislative intent to limit the mortgagee's right to recover on the debt to no more than the value of the security, which, in this case, is the residential property which the taxpayers sold. *Freedland v. Greco*, 45 Cal. 2d 462, 289 P. 2d 463; *Brown v. Jensen*, 41 Cal. 2d 193, 259 P. 2d 425. Accordingly, in the event of a default, the quitclaim deeds executed by the purchasers, could be recorded incident to foreclosure on the realty as security for the debt to which the property is subject in the hands of the taxpayers' purchasers, as non-assuming grantees who took subject to the mortgage. See also *Kerrigan v. Maloof*, 98 Cal. App. 2d 605, 616, 221 P. 2d 153 (1950), where the court stated that "the natural and normal construction of section 580(b) is that it only applies to contracts of sale where credit is involved."

For the reasons given above we submit, under California law, the conclusion is independently warranted that taxpayers' purchasers, as a matter of

substantive real property law, assumed the existing mortgages under the Uniform Agreement of Sale and the surrounding circumstances. At the very least, giving full effect to Sections 580(b) and (d) of the California Code of Civil Procedure, which were operative when the sales arguments were executed, they took the properties subject to the existing mortgages. Accordingly, the Tax Court's determination to the contrary constitutes reversible error as a matter of law.

C. *The Tax Court erred in its construction accorded Section 29.44-2 of Treasury Regulations 111*

We submit that the Tax Court further erred in construction of Section 29.44-2 of Treasury Regulations 111, by limiting its application to sales of excess mortgaged property where the mortgagor's purchaser either technically assumes or takes subject to the mortgage. In Parts A and B, *supra*, we have shown that, in any event, the sale and purchase transaction satisfied all of the legal requirements necessary for applicability of the regulation. However, we believe that the plain language of the regulation warrants a broader and more comprehensive construction than it has received in the lower court.

Ascribing to the plain language of the regulation its ordinary meaning, we believe that Section 29.44-2 should properly be viewed as applying to every sale of *excess* mortgaged realty since the obvious purpose of the regulation is to include the *excess*—*viz.*, the amount of the mortgage over and above the amount of the cost basis—in “initial payments,” in order to

take such *excess* into account in the year of sale and to include such *excess* in the "total contract price" in determining the percentage of income from installments to be reported over the remaining life of the contract. The result is achieved by including the entire amount of the mortgage in the "selling price" and excluding the amount of the mortgage, to the extent it does not exceed the vendor's basis, from "initial payments" and the "total contract price."

Since the purpose of the regulation is designed to properly compute the mortgagor's returnable income and it was the mortgagor who received the excess it realistically should make no difference, for federal tax purposes, how the mortgagor's purchaser technically becomes committed on his purchase of the mortgaged premises. The only relevant consideration, for purposes of computation of the *mortgagor's* returnable income on the installment sale, is the fact that *it has sold excess mortgaged realty*. That the purchaser's commitment with respect to the mortgagee is not here relevant is made clear in the language of the regulation which treats generally with "the sale of mortgaged property," adding, by way of illustration rather than transaction, "whether the property is merely taken subject to the mortgage or whether the mortgage is assumed by the purchaser." The regulation's purpose would be served if the illustrative clause were not included at all; on the other hand it contravenes that purpose to restrict the regulation's application to only those situations where the purchaser can technically be viewed as having taken "subject to" the mortgage or as having

“assumed.” Accordingly, we submit that the Tax Court erred in its interpretation accorded the regulation below.

CONCLUSION

For the reasons given above, the decision of the Tax Court should be reversed.

Respectfully submitted,

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NOVEMBER, 1957.

APPENDIX

Petitioner's Exhibits

Stipulated

The Stonecrest Corporation

1-A	R. 22
1-B	R. 22
3(b)	R. 23
3(c)	R. 23
3(d)	R. 23
3(e)	R. 23
3(f)	R. 23
4(a)	R. 23
5(a)	R. 23
5(b)	R. 23
5(c)	R. 24
6(a)	R. 24
6(b)	R. 24
6(c)	R. 24
6(d)	R. 24
7(a)	R. 25
7(b)	R. 25
7(c)	R. 25
7(d)	R. 25
7(e)	R. 25
7(a-1)	R. 25
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7(a-3)	R. 25
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8(b)	R. 27
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9(a)	R. 37
9(b)	R. 37
9(c)	R. 38
9(d)	R. 38

The Brookfield Corporation

1-A	R. 51
1-B	R. 52

The exhibits attached to the stipulation filed by the Stonecrest Corporation (R. 19-48) and designated as Exhibits 3(b), 3(c), 3(d), 3(e), 3(f), 4(a), 5(a),

5(b), 5(c), 6(a), 6(b), 6(d), 7(a), 7(a-1), 7(a-2), 7(a-3), 7(b), 7(c), 7(d), 7(e), 8(a), 8(b), 8(c), and 9(a), 9(b), 9(c), 9(d) are identical to the corresponding form or agreements used by Brookfield Corporation with the exception that the name Brookfield was substituted for the name Stonecrest on the documents with respect to agreements or business forms used by Brookfield. (R. 54).

No. 15,096

IN THE
United States Court of Appeals
For the Ninth Circuit

COMMISSIONER OF INTERNAL REVENUE,
Petitioner,

vs.

THE STONECREST CORPORATION and
THE BROOKFIELD CORPORATION,
Respondents.

On Appeal from the Decisions of the
Tax Court of the United States.

BRIEF FOR THE RESPONDENTS.

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FILED

JAN 27 1930

PAUL F. RABINOWITZ, CLERK

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**On Appeal from the Decisions of the
Tax Court of the United States.**

BRIEF FOR THE RESPONDENTS.

JURISDICTION.

The taxes involved herein are the Federal income, declared value excess profits and excess profits taxes for the years 1942, 1943, 1944 and 1945. Notice of deficiency was mailed by the Commissioner to The Stonecrest Corporation on April 9, 1952, relating to the above taxes, for the years specified (R. 7, 17); and on the same date, notice of deficiency was mailed to The Brookfield Corporation (R. 68, 87). On July 3, 1952, petitions were filed in the Tax Court by each of the respondents separately (R. 1, 4), for a redetermination of the aforesaid deficien-

cies (R. 6), and an amended petition was filed by respondent The Brookfield Corporation Nov. 4, 1954 (R. 5, 68). Motion to consolidate the two cases for hearing and decision by the Tax Court was granted September 21, 1953 (R. 2, 4, 121). The Tax Court entered its decision, in each case, on October 13, 1955 (R. 139-142). On January 12, 1956, the Commissioner, petitioner herein, filed separate petitions for review of said decisions (R. 142-146), pursuant to the provisions of Section 7482 of the Internal Revenue Code of 1954. On April 19, 1956, the parties stipulated that the above two cases be consolidated before this Court for review and decision (R. 150).

The amount of taxes alleged by petitioner to be *involved* in this appeal, totals, for the two corporations combined, \$767,502.05, plus interest. It is to be noted that petitioner does not claim that this is the amount of taxes *due* from respondents. The schedules (Pet. Br. p. 2) of amounts involved on appeal, merely show the amounts specified in the Commissioner's Notices of Deficiency, both dated April 9, 1952 (R. 7, 69, 120-121) with certain exceptions and modifications.¹

QUESTION PRESENTED.

1. As stated by petitioner himself, in his petitions for review (R. 143-4, 146), "The case presents for adjudication the question whether under terms of agreements of sale the buyers from the taxpayer of real property that had a mortgage on it did not assume the mortgage or

¹See Appendix B for details of such exceptions and modifications.

take the property subject to the mortgage within the meaning of Treasury Regulations 111 Sec. 29.44-2, relating to the determination of the percentage of taxable income to be returned on the installment basis as permitted by Sec. 44(b), Internal Revenue Code of 1939."

2. The case, further, presents for adjudication the question whether the aforesaid Regulation, if interpreted as contended for by the Commissioner, is invalid, because of conflict with the basic statute, Sec. 44.

STATEMENT OF THE CASE.

Almost all the facts in this case have been stipulated by the parties (R. 19-48 for The Stonecrest Corporation, and R. 48-67, 117-119, for The Brookfield Corporation) and the Tax Court below, in its findings of fact, found them accordingly and incorporated them by reference (R. 121). Except where otherwise specifically stated, the facts set forth in the Stonecrest stipulation apply likewise to the Brookfield Corporation (R. 54).

Respondent Stonecrest Corporation is a California corporation organized January 5, 1942 (R. 19). Respondent Brookfield Corporation is a California corporation organized February 27, 1942 (R. 49). Each of the respondent corporations was formed for the purpose of helping to meet the acute shortage of low cost housing, for war workers in the defense effort, following Pearl Harbor, and at the instigation and urging of representatives of the War Production Board. Under the uncertain war conditions then obtaining, this was considered a precarious undertaking (R. 90-92, 95-96). In pursuance of these

purposes, respondents, as their principal business during the tax years in question, engaged in the acquisition of land, planning and subdividing of land, and making necessary improvements, and constructing and selling individual residences on the improved lots (R. 20, 49). Insofar as here relevant, respondents kept their books and reported their profits on the installment basis (R. 122).

During the years 1942-1945, inclusive, Stonecrest developed three subdivisions in the San Francisco area, and Brookfield developed a single subdivision in Alameda County (R. 21, 49). Respondents' method of operation was as follows:

In the case of Stonecrest, the corporation first purchased unimproved land from a pre-existing partnership, Stoneson Bros., whose members were also shareholders of respondent. Stoneson Bros. had purchased the tract, prior to the organization of respondent, the purchase price being financed partially by partnership funds but principally by a loan from the San Francisco Bank. The said loan was evidenced by a promissory note executed by the partners and their wives and secured by a blanket deed of trust covering the entire tract in favor of the lending bank (R. 122, 22).

Stonecrest, having purchased said unimproved land from the partnership, then submitted its plans for building individual residences to the Federal Housing Administration, and after obtaining the general approval of the F.H.A., respondent applied to the San Francisco Bank for specific construction loans for the construction of individual housing units, which were made after an F.H.A. commitment to insure each separate loan had been se-

cured (R. 122, 23). Each such "construction loan" was secured by a deed of trust note and a deed of trust on each unit, which was recorded by the Bank.

The original blanket deed of trust on the entire tract was released on such individual lots as loans for the construction of housing units on these lots were made, an agreed release price being paid to the mortgagee Bank out of the construction loan (R. 122, 23-24).

When all the lots in a subdivision developed by respondent were subject to such individual deeds of trust, the stockholders of Stonecrest and their wives, who had personally signed the original note and blanket deed of trust, were released from their personal liability thereon, so that at all times *only respondent Stonecrest was liable to the mortgagee Bank on the deed of trust notes with respect to houses covered by installment contracts that had not been closed* (R. 122-123, 30).

In the case of respondent Brookfield, procedure relating to the acquisition of land and financing of construction was identical with the above circumstances relating to Stonecrest, with the exception that Brookfield acquired its tract of unimproved land from a partnership consisting of Henry Stoneson, Ellis L. Stoneson and Albert Bernhardt, and that, when securing construction loans from the San Francisco Bank for individual houses, the said persons, and their respective wives, being all of the stockholders of Brookfield, were required personally to guarantee each individual note secured by individual deeds of trust on the houses constructed and sold, and they were never relieved from their secondary liability on such loans until the loans were either paid in full.

or, as in a few cases not here in issue, assumed by the purchaser (R. 123, 55).

In each case, such construction loans, secured by deeds of trust upon individual lots (which encumbrances are the mortgages the effect of which is at issue in the present case), were thus completely obtained by respondents from the mortgagee Bank *before the appearance in the transaction of the purchaser of the individual house*, in any manner. Only after securing such loans, and giving such mortgages, did respondents proceed to construct and sell the individual houses (R. 23-24).

With the exception of a very few cash sales, not here at issue, all of these sales were installment sales (R. 20, 31). When a sale was agreed upon, purchaser signed various preliminary documents, including a Deposit Receipt and an F.H.A. certificate of employment, and when the house was ready for occupancy, a "Uniform Agreement of Sale" was executed by purchaser and respondent (R. 123, 24-25).

This agreement called for a small down payment of approximately \$100 or \$150 upon a purchase price of approximately \$4,500, and provided that the balance should be paid in monthly installments over a period of 20-25 years (R. 20; Exhs. 7(a), 7(a-1), 7(a-2), 7(a-3), attached to Stonecrest stipulation; R. 51). The total purchase price, payable in such installments, was in no way diminished by reason of the mortgage on the property. The contract referred to the existing deed of trust covering the property, as security for a note of approximately \$4,000, and obligated the vendor to pay off and meet the requirements thereof, as they came due monthly;

and the amount of the installments was calculated with reference thereto. Right to possession was immediate, but the purchaser did not receive present title. Upon payment by the purchaser to the respondent of the full sum designated in the contract as the purchase price, he was entitled to receive a deed free and clear of the mortgage (R. 124-5, 47, 67).

The level of payments which the purchaser was required to make in his installments, during the first 27 months, was somewhat greater than the level of payments during the remaining period of the installment contract, the difference in level representing the excess of purchase price (less down payment) over the original amount of the mortgage loan (plus interest on such excess) (R. 127, 46, 60).

Under the contract, the purchaser did not assume the mortgages, *or become in any way liable to the mortgagee Bank with respect thereto* (R. 30, 55-56, 136). On the contrary, the contract provided for a *possible future assumption only*, after a period of years, *upon a contingency that never in fact, occurred*. Thus it was provided, in one form of the contract, that *after a period of approximately two to seven years*, the seller should deliver, and the buyer accept, conveyance of the property, "*at option of Seller,*" and purchaser "*shall thereupon assume the performance of Seller's unperformed obligations*" under the mortgage, "*and Purchaser hereby consents to Seller being then released therefrom*" (R. 125-6). In other forms of the contract, the provision was the same, except that the option was given to the buyer (and the period of its potential exercise 8 to 12 years distant). But none

of these provisions ever came into play, for in no single case did respondents, or a purchaser, exercise such option to receive a deed prior to full payment of the purchase price (R. 127, 25-26).²

In connection with such potential future assumption, the Uniform Agreement of Sale recited that "*for this purpose*, Purchaser executes an assumption concurrently herewith, delivers same to Seller, and the Seller is authorized to deliver said assumption to the San Francisco Bank upon delivery of said conveyance" (R. 125-6). In the actual carrying out of the agreement, however, the document actually signed by the purchaser, to be used if and when the option was exercised and the property conveyed, was not an assumption, but the purchaser's guarantee to the Bank of respondent's mortgage loan; so that even if title had passed before complete performance by the purchaser, the respondent would have remained primarily liable to the mortgagee Bank for the full unpaid balance of the mortgage (R. 127, 30-31, Exh. 7(b) attached to Stonecrest Stipulation).

Among the documents executed by a purchaser from respondents was a "Mortgagor's Statement" contained

²In a few cases, by special arrangement, purchasers were permitted, as a matter of privilege and for personal reasons, and not as a matter of right on the part of either party, to assume the mortgage, and given a deed to the property, without payment of the full purchase price. In each such case, purchaser arranged with the Bank to assume the mortgage, and paid respondent the excess of the balance then due on the installment contract over the balance due on the deed of trust note; and in each such case, the installment contract was closed on respondents' books, and the entire balance of profit to be realized reported as current income. None of these few cases involved the exercise of any option given to either party under the agreements of sale (R. 129, 29, 53-4).

in a "Mortgagee's Application for Mortgage Insurance," which was filed by the lending Bank with the F.H.A., together with a "Purchaser's Certificate," contained in a "Consent to Substitution of Mortgagor under Title VI" (R. 123; Exhs. 6(c) and 6(d), attached to Stonecrest Stipulation). These two documents, as appears from the above (*supra*, p. 6), were executed *after* the completion of the loans from the mortgagee Bank to respondent, and the giving by respondent of the mortgages herein involved. They thus related, necessarily, not to the granting of the loan, or to the status of the present mortgagor thereunder (*viz.*, the respondent), but only to the possible future assumption of the mortgage by the purchaser, and his possible future substitution as mortgagor, in place of respondent, as provided for in the Uniform Agreement of Sale, *supra*, p. 7. This appears affirmatively from the face of the documents themselves. Thus, the "Consent to Substitution of Mortgagors under Title VI," Paragraph "A" (entitled "Mortgagee's Request for Substitution") recites: "We are informed that *title* to the property covered by the above numbered loan has been *or will be* transferred from the Stonecrest Corporation," etc., "and your consent is hereby requested to the release of the seller (Stonecrest) from liability under the above numbered loan *upon the assumption of such liability by the purchaser and upon proof that the purchaser has paid on the purchase price at least 10% of the F.H.A. valuation* (as of the date the mortgage was *accepted* for insurance) in cash or its equivalent."

Further, in the same document, Paragraph "B" ("Preliminary Approval") the Federal Housing Administra-

tion declares that it will give consent to the requested release "subject to the following conditions: (1) the proper execution of Paragraph (C) or (D) on the reverse side hereof . . ." and said Paragraph "C," entitled "Purchaser's Certificate," recites that "the undersigned (purchaser) hereby certifies *that title to the property* identified in Paragraph (A) hereof *has been conveyed to him* and *that he has paid on account of the purchase price* dollars [i.e., the necessary 10% of F.H.A. valuation] in cash; that he has assumed and agreed to pay the obligation identified by the above loan number . . . and that the undersigned is the owner . . . of the subject property." Obviously, these recitals speak as of a possible future date and state of affairs only—a state of affairs which never materialized. They were applicable in case of exercise of the option to take title and assume, set forth above (*supra*, p. 7). They were not true, at the time of the sale; title had not passed—and never did pass until full payment of the purchase price; nor had the purchaser paid the requisite 10% of the F.H.A. valuation, on the purchase price.

Neither the Bank nor the F.H.A. retained an executed copy of the above "Purchaser's Certificate," or of the purchaser's guarantee to the Bank of the loan made to respondent (R. 25, 124).

At the time of execution of the Agreement of Sale, purchaser, in accordance with its terms, also executed a quitclaim deed to the property in favor of respondent. This, likewise, was intended only for use in connection with a possible future contingency, viz., default by the purchaser (R. 126, 25). The purchasers were war work-

ers, largely migratory, whose financial responsibility was very uncertain (R. 91, 95-96, 109).

In each installment sale herein involved, with the exception of sales by respondent Stonecrest in the year 1945, the amount of the mortgage on each house sold was in excess of the cost of such house to respondents (R. 45, 66-67).

The language of the formal written document, the Uniform Agreement of Sale, provided that installment payments or parts thereof, should be applied by the Seller to payments on the mortgage loan (R. 125). But the actual carrying out of the contracts uniformly excluded anything in the nature of earmarking of any specific payments by the purchaser, or any intended synchronization of payments of installments by the purchasers to respondents, with payments by the respondents to the mortgagee Bank on the mortgage loans (R. 128). The liability of the purchasers to make payments to respondents under the installment contracts, and the liability of respondents upon their individual loans from the mortgagee Bank, were at all times kept strictly separate.

Thus all monthly payments on installment contracts were made directly to the respondents by the purchasers, and such purchasers, except at the commencement and expiration of their contracts, were not informed of payments made or amounts due on respondents' loans (R. 127-128, 29-30). All payments due on such loans were made directly by respondents to the mortgagee Bank, which carried all such loans on its books as loans due from the respondents (R. 127-128, 27). It is stipulated that purchasers at no time during the life of the con-

tracts had any liability to the Bank with respect to respondents' loans; and that, at all times, respondents alone (or in the case of Brookfield, respondent and its stockholders and their wives) had sole liability on the loans (R. 30-31, 136; *supra*, p. 5); from which the Bank would not release them prior to full payment (R. 31).

All funds received on installment contracts were deposited in the respondents' general bank accounts, and no part of such payments was ever put into any special account, or segregated or earmarked in any way (R. 38-39). Payments by respondents to the Bank upon their loans were made out of respondents' general funds (*id.*).

Payments made by the purchasers on the installment contracts did not, in actual practice, coincide with payments made by respondents on loans due by them to the Bank. Due to differences in the date of commencement of the obligation to pay, and in the duration of the contracts as against the duration of the loans, the balances due, in the great majority of cases, could never coincide (R. 32-37). There were, moreover, frequent delinquencies in payments due on the installment contracts, often totalling hundreds per month (R. 37-38); whereas payments by respondents to the Bank upon their loans were in all cases paid promptly and in full, without reference to the state of payment upon said installment contracts (R. 37, 27). The amounts paid by respondents to the Bank were in accordance with monthly statements summarizing amounts due on all outstanding loans, and each respondent paid the aggregate total due by it to the Bank, on all loans, in a single check (R. 27).

In their tax returns for the years here involved, respondents elected to report the sales as installment sales, under I.R.C., Sec. 44,³ and, in accordance with said section, reported as income "that proportion of the *installment payments actually received* in that year which the gross profit . . . to be realized" when payment was completed, bore to the total contract price. Respondents considered the "total contract price" referred to in Sec. 44 to be the amount for which a property was sold, without any deduction for the amount of the mortgage, or any part thereof (R. 129, 47, 52).

The Commissioner, in determining the amounts considered properly reportable as income, upon the installment basis elected by taxpayers, purported to rely upon the provisions of Reg. 111, sec. 29.44-2, and proceeded as follows: (a) he held that the "total contract price" was not the purchase price designated in the contract, but should be arrived at by deducting from such purchase price, the amount of the mortgage, to the extent that it did not exceed the vendor's basis (R. 129, 42-3; Petitioner's brief herein, p. 15).⁴ (b) Dividing the total profit to be realized on the sale by the figure for "total contract price" arrived at in the above manner, he reached a figure of 100%⁵ as the percentage to be applied in accordance

³All references herein to I.R.C. are to the I.R.C. of 1939 in force prior to 1954 amendments.

⁴The statement by the Tax Court below (R. 129) and repeated in Petitioner's brief herein, p. 14, that the Commissioner added the excess of the mortgage over the seller's basis, to the basis, to determine "total contract price," was an obvious inadvertence. See R. 42-43; 132; and Petitioner's brief herein, pp. 15, 18.

⁵For the year 1945 (when the amount of the mortgage did not equal vendor Stonecrest's basis) the Commissioner reached a figure of 83.5% (R. 42).

with the statute, sec. 44 (R. 43, Pet. br. herein p. 15). (c) Commissioner, likewise purporting to be acting in pursuance of the above Regulation, defined "initial payments" as including, in the year of sale, the excess of the mortgage over the respondent seller's basis (R. 130). (d) Commissioner then applied the 100% figure, *not* to the "installment payments actually received in that year," prescribed by sec. 44, but to the down payment at the time of sale, *plus* the said excess of mortgage over respondent's base; and, also, to *a certain part only*, of further installments actually received during the year. The item comprising those parts of installments actually received which Commissioner recognized, was designated "Other collections on contract price" (R. 43; Pet. br., p. 16), and this item included only the amount by which installment payments made during the first 27 installments (less interest therein) exceeded the level of payments prevailing during the remaining term of the contract (R. 46-47, 63-64). All the remainder of the installment payments actually received (necessarily including all of the installments after the first 27 months) were ignored, at all times (R. 47). Here, too, the Commissioner purported to be acting in pursuance of the above Regulation, although this contains no authorization for ignoring any installment, or any part of any installment, actually received.⁶

⁶For the respondent Stonecrest, the Commissioner excluded from consideration the following amounts actually received by Stonecrest from purchasers in the installments: in 1942, \$12,243.34; in 1943, \$267,658.86; in 1944, \$247,624.56; and in 1945, \$261,190.86.

For respondent Brookfield, the corresponding figures were: in 1942, \$56.92; in 1943, \$74,411.89; in 1944, \$112,608.70; and in

In the Tax Court below, respondents contended that the Regulation relied upon by petitioner was not applicable to the facts of the present case, which came neither within the express terms thereof, reasonably construed, nor within its intent and rationale; and further, that if such Regulation were construed as contended for by petitioner, so as to be here applicable, it would be invalid because of conflict with sec. 44 (R. 116; Pet. br. herein, p. 30). The Tax Court, in its opinion, found no necessity to consider whether the Regulation would be invalid, if construed as contended for by the Commissioner, but held that such construction was not tenable, and that the Regulation had no application to the kind of transaction involved in the present case.

SUMMARY OF ARGUMENT.

1. Sec. 44, I.R.C., conferred on sellers of property on an installment basis, the privilege of deferring the report of what, under ordinary and generally applicable principles, was present income, until future years, when installments were actually received. It permitted vendor to distribute the total profit on the sale, for tax purposes, over the entire life of the sales contract; and applied a uniform percentage, the proportion of gross profit to total contract price—i.e., the overall rate of profit on the en-

1945, \$241,262.02. (These latter figures include minor amounts relating to certain sales, not reported on the installment basis, not here at issue.)

(The above figures are arrived at by calculation of the differences between the amounts stipulated as "installment payments actually received in cash" and the amounts recognized by Commissioner (R. 39-43, 60-65).)

tire sale—to each installment, when actually received, to determine reportable income of the year in question.

Where the property sold on the installment basis was mortgaged property, great administrative difficulties arose in the application of sec. 44. All of these difficulties arose, however, from a single factor, viz., that under the common forms of transfer of mortgaged property, the full selling price of the property is not paid into the hands of the vendor; and the “installments actually received” by him constitute a *part* only, of such full selling price. The entire amount of the mortgage is customarily absent from the installments actually paid to the vendor. As the Supreme Court pointed out in *Burnet v. S. & L. Bldg. Corp.*, 288 U.S. 406, under these “unusual circumstances,” application of the statutory percentage (which is the overall rate of profit on the entire sale) to the installments actually received by the vendor (which are only part of the full selling price), could not reach the entire profit on the sale. In order to do so, it would be necessary for the Commissioner to base a further tax upon dealings between third parties, the purchaser and the mortgagee—a procedure which, as the Supreme Court pointed out, “would inevitably lead to many practical difficulties,” might unduly postpone or lead to escape from collection of taxes, and could not be determined from the vendor’s own books and records.

To deal with these administrative difficulties, the Regulation here involved was promulgated, and, *upon the ground of these practical necessities*, sustained by the Supreme Court in the *S. & L.* case, *supra*. Said Regulation applies by its terms to mortgaged property “whether

the property is *merely* taken *subject* to the mortgage or whether the mortgage is *assumed* by the purchaser." In both these common forms of transfer, in the usual meaning of the terms employed, the amount of the mortgage is not paid to the vendor, and is not part of the "installments actually received" by him; so that all of the practical difficulties adverted to by the Supreme Court in the *S. & L.* case, *supra*, are present, and the Regulation, which was designed to meet those difficulties, is applicable.

In the present case, however, the purchaser has *neither* "assumed" the mortgage, nor was the property "merely taken subject to" the mortgage, in the usual sense of that term, which implies abatement of the purchase price payable directly to the vendor, by the amount of the mortgage. The sales in the present case belong to what is well recognized by the authorities as a *third* category (see *infra*, pp. 25-28) where the purchaser pays the vendor the full price for the property, undiminished by the mortgage, and the vendor in turn engages to pay off the mortgage and give purchaser a clear title.

The distinction between this *third* category and the two types of transfer of mortgaged property dealt with in the Regulation, is not a mere technicality (which is the main burden of the argument in the Commissioner's brief herein), but, on the contrary, goes to the essence of those problems in the application of section 44, which, as the Supreme Court held, are the very reason and justification for the Regulation. The transfers, in this third category, are wholly outside the rationale of that Regulation. For here, the "installments actually received" by the re-

spondent vendors *include the entire selling price of the property, undiminished by the mortgage*. Consequently, none of the above practical and administrative difficulties, arising in the two other types of transfer, which necessitated the Regulation, can here arise. Thus, there is no possibility here of any part of the profit escaping taxation; or of postponement of collection beyond the term of the installments; or any necessity to examine dealings of third parties or go beyond vendor's own books and records.

In a word, the straightforward application of the plain terms of section 44 raises no special problems, in this *third* category, whatsoever. The Regulation should be interpreted accordingly, and not subjected to grossly artificial distortion and stretching of its language, in complete disregard of its purpose and intent, to cover the instant case.

2. If, however, the Regulation here involved were not given a reasonable construction, but interpreted as contended for and here applied by the Commissioner, it would clearly be invalid, because of direct conflict with the express provisions of sec. 44.

(a) The Regulation directs that the excess of each mortgage over the vendor's basis be counted as part of the "initial payments" in the year of sale. The statute, sec. 44, however, specifically excludes from "initial payments" any part of the indebtedness of the purchaser. Where there has been an assumption, this provision of the Regulation has nevertheless been sustained by the courts on the ground that the statute refers to indebtedness of the purchaser *to the vendor*, whereas the as-

suming grantee has an indebtedness to a third party. In the present case, however, there is no assumption and no liability of the purchaser to the mortgagee Bank. The purchaser contracted to pay over the entire selling price, undiminished by the amount of the mortgage, directly to the respondent vendor. *All* of the selling price, including, specifically, the "excess" of mortgage over seller's base, is thus part of purchaser's indebtedness *to the vendor*; and the conflict with the statute is inescapable.

(b) If the Regulation were interpreted as contended for and here applied by the Commissioner, a part of each installment payment actually received, or entire such installments, would be excluded from consideration (*supra*, p. 14). This is directly contrary to the specific mandate of sec. 44, which requires that a uniform percentage of "the installment payments actually received in that year" be returned as income. The Commissioner's conduct in this regard has no authorization in the provisions of the Regulation; but if the latter be interpreted, nevertheless, to justify such procedure, it would thus be in direct conflict with the plain language of the statute.

3. Respondents strongly urge, however, that it is not necessary to invalidate the Regulation. It is elementary that a regulation should be construed in harmony with the statute to which it relates, and that, where possible, a construction should be adopted which avoids invalidity, or grave doubts upon that score. Here, there is a simple, logical interpretation of the Regulation, the interpretation contended for by respondents, and adopted by the Tax Court below, which does no violence to the statute, raises no doubts of its validity, involves no dis-

tortion of the words of the Regulation, and is in harmony with and fully carries out the purposes of both the Regulation and the statute. It is urged that, under such circumstances, this is the interpretation that must here prevail.

ARGUMENT.

POINT I.

THE INSTALLMENT SALES INVOLVED IN THE PRESENT CASE ARE NOT WITHIN THE TERMS OR RATIONALE OF REG. 111, SEC. 29.44-2.

Section 44 of the Internal Revenue Code of 1939, the basic statute here involved, reads, so far as pertinent, as follows:

“Sec. 44—Installment basis——

(a) Dealers in personal property

Under regulations prescribed by the Commissioner with the approval of the Secretary, a person who regularly sells or otherwise disposes of personal property on the installment plan may return as income therefrom in any taxable year that proportion of the installment payments actually received in that year which the gross profit realized or to be realized when payment is completed, bears to the total contract price.

(b) Sales of realty and casual sales of personalty

In the case . . . (2) of a sale or other disposition of real property, if . . . the initial payments do not exceed 30 per centum of the selling price . . . , the income may, under regulations prescribed by the Commissioner with the approval of the Secretary, be returned on the basis and in the manner pre-

scribed in this section. As used in this section the term 'initial payments' means the payments received in cash or property other than evidences of indebtedness of the purchaser during the taxable period in which the sale or other disposition is made."

The general purpose of the above statute was unquestionably to space the return of profit from the sale evenly over the whole period of the installments. The Commissioner, petitioner in the present case, however, contrary to all precedent, is attempting to require the entire profit on the whole contract, which by its terms was spread over a period of 20-25 years, to be concentrated within approximately the first 27 months thereof. In order to accomplish this result, he is attempting—without precedent in the cases—to exclude from consideration a portion of each installment actually received, or the whole of such installment. In so doing, the petitioner's action purports to be based on Regs. 111, Sec. 29.44-2, which, so far as here pertinent, reads as follows:

"In the sale of mortgaged property the amount of the mortgage, whether the property is merely taken subject to the mortgage or whether the mortgage is assumed by the purchaser, shall be included, as a part of the 'selling price,' but the amount of the mortgage, to the extent that it does not exceed the basis to the vendor of the property sold, shall not be considered as a part of the 'initial payments' or of the 'total contract price,' as these terms are used in section 44, . . . and in this section."

If applicable in the present case, the above Regulation would likewise require, as its terms have been interpreted, that the excess of each mortgage over the vendor's basis,

be returned as part of the "initial payment" under the contract; and the petitioner has so treated the contracts here involved.

The Regulation applies, as will be noted, to situations (a) where the property is "*merely taken subject to*" the mortgage, and (b) where "the mortgage is *assumed* by the purchaser." The present case, however, falls within neither of the above classifications. The mortgages here were *not* assumed, nor, as respondents contend, was property taken "*merely subject to*" the mortgage, within any reasonable construction of that term as here employed. The present case, as will be shown, belongs to a well recognized *third* category, separate from either of the above. Almost contemporaneously with the promulgation of the Regulation, it was specifically held that its provisions did not apply to a situation such as is here presented (*G.C.M.* 3048, C.B. VII-1, p. 60; *infra*, pp. 53-54. And in the leading case of *Burnet v. S. & L. Bldg. Corp.*, 288 U.S. 406 (considered in detail, *infra*, pp. 51-53), the rationale and practical justification for the Regulation was very thoroughly explored and expounded by the Supreme Court, in terms that are totally inconsistent with the Commissioner's present position. Respondents accordingly contend that the present situation is wholly outside both the language, and the purpose and intent of the Regulation.

(1) So far as the category of property taken "*subject to*" the mortgage is concerned, it may be said that in a broad, general sense, every sale of mortgaged premises is subject to the mortgage, by operation of law. But that is not the *usual* meaning of the term, nor the sense in which it is used in the Regulation. In the very broad

sense, of course, even sales where the mortgage is "assumed" are "subject to" the mortgage; but the Regulation, which is phrased *in the alternative*, obviously never intended this meaning.

In the usual meaning of the term, taking property "subject to" a mortgage indicates that the seller is under no obligation to the purchaser to give the latter a clear title, or to pay off the mortgage; that what is sold is, in effect, merely the equity of redemption; that the mortgage debt is to be satisfied primarily out of the land; and that the price actually paid to the seller, has been reduced by the amount of the mortgage. Thus, *Tiffany on Real Property*, the well recognized and leading authority in this field, declares (3rd ed., vol. 5, p. 364) that, although a transfer of mortgaged property is always subject to the mortgage (except in case of transfer to a bona fide purchaser without notice), "in the sense that the transferee takes the land subject to the possibility that it may, at the instance of the holder of the mortgage, be applied to the satisfaction of the obligations secured by the mortgage," nevertheless

"The statement in a particular case that the transfer is 'subject to' the mortgage, usually refers not to the fact that rights of the mortgage creditor take precedence of the rights of the transferee, but to the relations between the parties to the transfer as regards the duty to satisfy the debt secured by the mortgage. By taking a transfer subject to the mortgage, the transferee concedes that, as between him and the transferor, the debt is to be satisfied out of the land, and that the transferor is not, as being personally liable for the debt, under an obligation to

pay it for the purpose of relieving the land in the transferee's hands." (Italics supplied.)

In the present case, of course, the transfer is decidedly not "merely subject to" the mortgage, in the above "usual" sense of the term. By the terms of the contract, the mortgage debt was *not* to be "satisfied out of the land," and the transferor was *not* relieved of his obligation to pay off the mortgage, for the purpose of relieving the land. On the contrary, the purchasers here were, in every case, entitled, upon completion of their contracts, to receive from the vendors a deed to the property free and clear of the mortgage (R. 47, 67).

Similarly, 4 *Pomeroy's Equity Jurisprudence* (1941 ed. pp. 613-614) declares:

"Where a mortgagor conveys by a deed which states simply that the conveyance is '*subject to*' a certain specified mortgage, or words to that effect, the grantee takes the land burdened with the lien. As between himself and the grantor-mortgagor, the land is the primary fund out of which the mortgage debt should be paid; *he cannot claim that the mortgagor should pay off the mortgage and exonerate the land.*" (Italics supplied.)

To the same effect, see:

Fogarty v. Hunter, 83 Ore. 183, 162 Pac. 964, 971.

Henry v. Heggie, 163 N.C. 523, 79 S.E. 982.

Scale v. Berryman, 46 Ariz. 233, 49 Pac. (2d) 997.

As the Court declared, in *Clark v. Thompson*, 83 F. Supp. 133, 136:

"A conveyance of land '*subject to* a mortgage' is a simple deed of whatever interest, estate or equity the

grantor has *after the debt is satisfied out of the property.*" (Italics supplied.)

Furthermore, where property is sold "*subject to*" a mortgage, *the price actually paid to the vendor is regularly reduced by the amount of the mortgage.* See Tiffany, *supra*, sec. 1435, p. 365 (R. 136-7).

And as the Court pointed out in *Carpenter v. Koons* (20 Pa. St. 222, 227):

"There is a palpable difference between one who buys land *subject to* a mortgage, and *has a reduction in the price equal to the amount of the lien*, and another who pays its full value and stipulates for a title clear of encumbrances."

The sharp distinction between the present case, and sales "*subject to*" a mortgage, as that term is used in common parlance, and by the above authorities, needs no further emphasis.

(2) It should be noted in this connection that the two categories mentioned in Reg. 111, Sec. 29.44-2 (c) are *not* all-inclusive. As Tiffany declares (*Tiffany on Real Property*, 3rd ed., vol. 5, p. 364):

"The transfer of the mortgaged land may be merely '*subject to*' the mortgage, or it may be accompanied by an agreement on the part of the transferee to pay the mortgage debt, a contract of *assumption*, as it is frequently called, *or it may be neither.*" (Italics supplied.)

Similarly, Osborne in his *Handbook on the Law of Mortgages* (1951, p. 695) points out:

"Terms upon which a mortgagor may sell his interest in mortgaged property are *three*."

“1. The purchaser may pay to the mortgagor *only the agreed upon value of the redemption interest, i.e., the difference between the amount of the mortgage debt and the amount set as the total value of the land.* He may not, however, assume any personal responsibility for the payment of the mortgage debt. He takes, as it is said, ‘*subject to*’ the mortgage . . .

“2. The purchaser may pay to the mortgagor, as in the first transaction, only the value of the redemption interest. In addition the purchaser may promise the mortgagor to pay off the mortgage debt. Such promises are referred to as *assumptions* of the mortgage . . .

“3. The purchaser may pay the full value of the land, as agreed upon, free from encumbrances. The mortgagor in return agrees to pay off the mortgage debt when it comes due . . .” (Italics supplied.)

The present case, obviously, falls within the third classification thus set out—and *not* within the first, or “subject to” classification.

Similarly, in the leading article on “*Transfers of Mortgaged Property*,” by Professors Storke and Sears, 38 Cornell Law Quarterly, p. 185, the authors declare (pp. 188-189) that “Once the parties have decided to let the mortgage ride, they have *three standard methods* of handling the sale.” (Italics supplied.) The authors call these three methods “Grantor-to-Discharge,” “Grantee-to-Discharge,” and “Grantee’s Option.” They declare that “the characteristic feature of the Grantor-to-Discharge transaction is the payment of the *full basic bargain price directly by the buyer to the seller.* A buyer who buys in this way, of course, relies on the seller to dis-

charge the mortgage;" and they distinguish it from the other two methods, where "the buyer pays *only the equity price to the seller.*" The "standard name" of the "Grantee-to-Discharge" method, they declare, is "*assumption of the mortgage*" (p. 190). In the method called by them "Grantee's Option," the grantee "incurs no personal liability. No personal duty to discharge the mortgage arises either from buyer to seller or from seller to buyer. The buyer has a choice, or option: he may pay off the mortgage and keep the land, or simply let the land go upon foreclosure, limiting his loss to the equity price. . . . This transaction is *usually* called '*transfer subject to the mortgage . . .*'" (p. 190; italics supplied.)

Similarly, the article "*Taxing Transfers of Mortgaged Property,*" by A. D. Lurie, 39 Cornell Law Quarterly, p. 611, points out the *three* different methods of transfer of mortgaged property, and adopting the terminology of Professors Storke and Sears, *supra*, declares (p. 614) that the "Grantee-to-Discharge is, of course, the familiar transaction of the buyer *assuming* the mortgage, and getting credit in the purchase price for the amount of the mortgage. 'Grantor-to-Discharge' is employed most frequently in subdivision sales . . ."

Summarizing all the above authorities, whose weight and accuracy may not be questioned, it is clear that while all of them recognize that the term "subject to" may, in a general sense, refer to all sales of mortgaged property, in the sense, that is, that the mortgagee's lien always remains paramount, nevertheless, in the *usual* sense, the term "subject to" refers to a sale of mortgaged premises where the purchaser pays to the vendor, not the full

value of the land, unencumbered by the mortgage, but only the "value of the redemption interest," and the vendor is under no obligation to the vendee to pay off the mortgage debt, or tender a clear title. It is equally clear, that the present case does not fall within this category, and does not present a case of property taken "subject to" the mortgage, in the usual meaning of the term.

(3) The question here presented, therefore, is in what sense is the term "subject to," as employed in the Regulation here involved, to be construed? Is it to be given its *usual* meaning, as defined by Tiffany and the other authoritative sources cited above—a meaning which excludes the case at bar? Or is it to be given its broadest conceivable significance, and stretched to include *all* sales of mortgaged property, whatsoever?

Respondents respectfully submit that the Regulation, when employing the term "subject to," must be held to have used it in its usual sense, as defined above, and that this conclusion is not only required by well established general rules of interpretation, but even more forcibly, by a consideration of the history and purposes of the basic statute, I.R.C., sec. 44, and of the Regulation itself.

It is very well established, to begin with, that the language of statutes and administrative regulations in general, and tax laws, in particular, should, wherever possible, be given their *usual* and ordinary significance. Thus, in *DeGanay v. Lederer*, 250 U.S. 376, 381, the Supreme Court declared:

"Unless the contrary appears, statutory words are presumed to be used in their ordinary and *usual*

sense, and with the meaning commonly attributable to them." (Italics supplied.)

Similarly, in *Davis v. Penfield*, (C.C.A. 5-1953), 205 F. 2d 798, the Court declared that "strained and artificial constructions in tax cases of law or of fact will be avoided, and words and acts will normally be given their *usual* and ordinary meaning." (Italics supplied.)

See also *Com. v. Korrell*, 339 U.S. 619, 627-8, and numerous cases there cited.

It is superfluous to multiply citations as to the above rule. The gist of it is, that unless there are overriding considerations to the contrary, the words, "subject to" should not be stretched beyond the situation to which, as *Tiffany* and the other authorities cited above have made plain, they usually and properly refer.

In the present case, not only is there a total absence of any contra-indications to the application of this rule, but every consideration of the policy and purpose of the statute, sec. 44, and of the Regulation itself, overwhelmingly dictates the same conclusion. As will clearly appear, the Regulation had everything to do with cases of assumption, and of "subject to," in the usual sense; in these connections, its purpose was plain, and it served a needed function. But it had nothing whatsoever to do with such a situation as is here presented.

It is here necessary to beg the Court's indulgence for a brief review of the very elements of the foundation and purpose of the installment method of reporting, as set up in sec. 44, and of the Regulation here involved. For while these considerations are elementary, it must be stressed

that they are basic and essential to the question in the present case, and that they are considerations of which petitioner has completely lost sight.

Prior to 1926, the situation was handled through departmental regulations, but, after some years, these regulations were held to be without statutory warrant. (*Willcuts v. Gradwohl*, 58 F. 2d 587, 590.) Thereupon, Congress enacted section 212(d) of the Revenue Act of 1926, which is substantially identical with I.R.C., sec. 44, quoted above. The general purpose of this statute has been many times stated. As the Supreme Court declared, in *Com. v. South Texas Lumber Co.*, 333 U.S. 496:

“The installment basis of reporting was enacted, as shown by its history, to relieve taxpayers who adopted it from having to pay an income tax in the year of sale based on *the full amount of anticipated profits when in fact they had received in cash only a small portion of the sales price.*” (Italics supplied.)

Similarly, in the leading case of *Burnet v. S. & L. Bldg. Corp.*, 288 U.S. 406, 413, the Supreme Court declared that the statute operated to permit the vendor “to distribute the profit *through the years during which purchase money was actually received.*” (Italics supplied.)

Similarly, the purpose of sec. 44 is declared, in *In Re Roger's Estate* (143 F. 2d 695, 696-7), to have been to “spread the profit over the period during which the installment obligations are satisfied or disposed of.”

Or, as the Board of Tax Appeals phrased it, in *J. P. Jerpe*, (45 B.T.A. 199, 202), the purpose was to allow the vendor “to *apportion the profit evenly* over the latter payments as they are received.” (Italics supplied.)

In order to carry out the above purpose, Congress provided, in sec. 44, that the vendor who elected to return the sale under this method, should return as income in any taxable year "... that proportion of the installment payments actually received in that year which the gross profit realized or to be realized when payment is completed, bears to the total contract price." In other words, the statute set forth a percentage:

$$\frac{\text{Gross Profit}}{\text{Total Contract Price}}$$

which was to be applied to each installment payment actually received, to determine profit returnable therefrom.

In this statutory scheme, "total contract price" meant just what is ordinarily meant by the term, viz., the total amount designated in the contract as the purchase price, and was equivalent to "Selling Price"; and, in all ordinary cases, this statutory scheme operated smoothly and accurately. The statutory percentage represented the rate of profit on the entire contract; and this percentage applied to each individual installment, represented the ratable amount of total profit present in that individual payment; and the total of all such calculations was necessarily equal to the entire amount of profit on the contract. The statutory purpose was thus achieved, of spreading the profit precisely, and evenly, over the entire period of the installment payments; and the entire profit was returned, in the process, directly out of such installments.

It soon became apparent, however, that, in the case of installment sales of mortgaged property, where the mort-

gage was assumed by the vendee, or where the property was taken "subject to" the mortgage (in the usual sense, as set forth above), the statutory scheme met a complication; for, in each such case, the vendee did not pay to the vendor the total contract price, in the usual sense (i.e., the amount at which the contract valued the property, unencumbered by the mortgage)—but only the *difference* between this amount, and the amount of the mortgage. In a word, the "total contract price," as that phrase was customarily used, was *not paid to the vendor*; the selling price, or contract price, was here *different*, and *greater*, than the amount so received. *The amount of the mortgage never showed up in the installments actually paid.*

Furthermore, it was apparent that if this fact was ignored, the statutory percentage prescribed by sec. 44 would necessarily result *in failure to recover all the profit*. Thus, to illustrate, if property, costing \$90,000, with a mortgage on it of \$80,000, was sold for \$100,000, there was a profit of \$10,000. But if the vendee assumed the mortgage, or took the property, "*subject to*" it, in the usual sense, he paid the vendor, in down payment and installments, only \$20,000. And if the vendor returned, of this \$20,000, only the percentage

$$\begin{array}{r} \$ 10,000 \text{ (gross profit)} \\ \hline \$100,000 \text{ (total selling price designated} \\ \text{in the contract)} \end{array}$$

or 10%; then, his total returns, over the whole period of the installment contract, would only be 10% of \$20,000—or \$2,000; instead of the correct figure of \$10,000 profit.

To avoid this incorrect result, and to carry out the purposes of sec. 44, and reach all the profit, the Commis-

sioner, shortly after the enactment of the statute in 1926, promulgated Reg. 69. art. 44, which provided:

“In the sale of mortgaged property the amount of the mortgage, whether the property is merely taken subject to the mortgage or whether the mortgage is assumed by the purchaser, shall not be considered as part of the ‘initial payments’ or of the ‘total contract price’ but shall be included as part of the ‘purchase price,’ as those terms are used in section 212 (d) . . . and in this Article.”

In brief, inasmuch as, in the two situations dealt with, the amount of the mortgage was *not paid to the vendor*, it was excluded from “total contract price.” This resulted in a statutory percentage that, in most cases of sale of mortgaged premises, cured the discrepancy above noted. Thus, in the illustration above given, the statutory percentage would, in accordance with the Regulation, be fixed at

\$10,000	(gross profit)
<hr/>	
\$20,000	(total contract price; i.e., \$100,000 selling price, less \$80,000 mortgage)

or 50%; and 50% of the \$20,000 actually received by the vendor in the installments, would be \$10,000—the correct figure for total profit.

The purpose of the Regulation, in its origin, was thus to ensure that the application of the statutory percentage, to installments actually received, did not result in failing to tax *all* the profit. It was merely a necessary explication of the statute, to permit the retention of the statutory percentage, and at the same time, recover all the profit, over the life of the installments, and directly from them.

After some years' experience under the new statute, however, it became obvious that there was still one situation where the Regulation failed to effectuate the statutory intent; viz., that all of the profit realized on the sale should be returned during the period of the installments; and that part of the profit escaped return by this method. This occurred in the case of the so-called "excess" mortgages—i.e., where there was a mortgage in excess of the vendor's base, and the mortgage was assumed by the vendee, or the property taken "subject to" it, in the usual sense. Thus, if property costing \$70,000, but mortgaged for \$80,000, was sold for \$100,000, on the installment plan, the purchaser assuming the mortgage or taking "subject to" in the usual sense, then the total profit would be \$30,000; the "total contract price," as specified in the new Regulation, would be \$20,000; and the statutory percentage would be 100% plus. But even 100% of the payments actually received by the vendor from the vendee would be only \$20,000—and \$10,000 of the \$30,000 total profit, would still fail to be returned by this method.

In a word, the \$10,000 "excess" of the mortgage over the base, not being included in installments actually paid by the vendee to the vendor, would escape taxation. At least, it would not be reached in accordance with the scheme of sec. 44.

To plug up this loophole—and for no other purpose—the Regulation was amended in 1929, so as to present substantially the wording of Reg. 111, Sec. 29.44-2, *supra*, p. 21 (*T.D. 4255*, C.B. VIII-1, p. 165), which reaches this "excess" profit, by including it in the "initial payment."

It is apparent from the above review that the Regulation was, to a certain extent, a departure from the method prescribed in sec. 44, but one in *necessary aid* of sec. 44, and that it was promulgated to take care of certain situations where the statutory scheme broke down. *But none of these considerations have any application whatsoever to a situation like the case at bar!* Here, the entire amount of the selling price is paid directly to the vendor by the purchaser, via the installments (and down payment); and, consequently, the plain and straightforward application of the statutory scheme, as set forth in sec. 44, recovers *all* the profit realized from the contract, and does so over the period "during which the purchase money was actually received" (*Burnet v. S. & L. Bldg. Corp.*, 288 U.S. 406, 413, *supra*), and directly from the "installment payments actually received in" the year involved—precisely as the statute contemplates. *There is no special problem here to be dealt with whatsoever!*

Thus, in the present case, where the houses sold for approximately \$4,500, and there was a mortgage of approximately \$4,000, and a basis to the vendor, respondent, of approximately \$3,500, there was a profit of \$1,000. Applying the statutory scheme, precisely as it was written in the statute, and as it is applied in any ordinary case, with no distinction between "selling price" and "total contract price," the statutory percentage is:

$$\frac{\$1,000 \text{ (gross profit on entire contract)}}{\$4,500 \text{ (total contract price = selling price)}}$$

or 22.222%; and applying this figure to the total of "installment payments actually received" during the life of the contract—which is \$4,500, the full selling price—one

gets \$1,000—the correct and full amount of profit to be returned.

Obviously, the present case is not the *usual* case of transfer of mortgaged property, contemplated by the Regulation, and giving rise to the special problems dealt with by the Regulation; and on well settled principles of construction, the Regulation should not be forcibly construed to cover it. (*Cf. Com. v. Henry Hess Co.*, 210 F. 2d 553, 559, where this court, construing the Treasury Regulation there involved, held that it did not apply to the case then before it, because “This is not the *usual* case contemplated by the Regulation.”) (*Italics in original.*)

The Commissioner’s brief herein, however, completely ignores all the considerations of rationale, purpose and intent of the Regulation, as set forth above, and as clearly expounded in the *S. & L. Bldg. Corp.* case by the Supreme Court (*infra*, pp. 51-53). It pays no heed to the natural reading of the language, its usual meaning and intended function, but rigidly insists upon the broadest possible meaning for the phrase “subject to,” regardless of the total lack of *reason* for such a reading, and regardless of needless conflict thus caused with the whole basic purpose and scheme of sec. 44.

Treasury regulations are valid and effective, as the Court declared in *Philadelphia Elec. Co. v. U.S.* (117 F. Supp. 424, 427), “where they are reasonably designed to carry out the intent of Congress, but they cannot add a condition to a right which Congress did not impose, *unless the addition was necessary in order to make effec-*

tive the conditions imposed by Congress. Helvering v. Credit Alliance Corp., 316 U.S. 107, 113; *Helvering v. Reynolds*, 313 U.S. 428; *Campbell v. Galeno Chemical Co.*, 281 U.S. 599, 610; *Eastman Kodak Co. v. U.S.*, 48 F.S. 357."

In the present case, any departure from the statute was 100% unnecessary, and the force of the rule set forth in the above quotation needs no comment.

(4) So far as the category of *assumed* mortgages is concerned, it is likewise clear that the present case does not fall within the scope of the Regulation. Petitioner's brief argues, in effect, that because purchasers were required by their contracts to make payments to the respondent vendors, calculated in amount with reference to sums due by respondents on the mortgage, and the vendors in turn are obligated to the purchasers to pay off the mortgage, this constitutes an "assumption" by the purchasers. Such is not the law. These provisions of the contracts herein, copiously insisted upon in petitioner's brief, merely bring the case within the *third* category of standard methods of transfer of mortgage property, which, as has been seen, is an entirely different category from "assumption" (*supra*, pp. 25-28). In this third category, payment of the full price, undiminished by the mortgage, is made directly by the purchaser to the vendor—not to the mortgagee; and the provisions in the present contracts, requiring vendor to make payments on the mortgage, on which so much stress is laid by Petitioner's brief, are no more than an express implementation of what the law, in this "third category," in any event requires of the vendor. Thus, Professors Storke and Sears.

in their above cited article (*supra*, p. 26), declare, as already quoted, that in the "Grantor-to-Discharge" type of transaction, where the buyer pays the full price directly to the seller, "A buyer who pays in this way, of course, relies on the seller to discharge the mortgage." Similarly, *Tiffany on Real Property* (3rd ed.), vol. 5, p. 365, declares that "... if the full agreed value of the land was paid, it may be concluded that the parties intended *the grantor to pay the mortgage debt out of the proceeds of the sale.*" (Italics supplied.)

Similarly, *Glenn, Mortgages* (1943), vol. 2, p. 1142, declares that if the vendee has paid the full price, without any deduction, he may, as a matter of law, look to his vendor for protection against the mortgage lien.

It is, of course, of the essence of an "assumption" that there be a personal liability of the purchaser to the mortgagee. This is established by innumerable authorities:

59 *C.J.S., Mortgages*, sec. 418, p. 615;

Tiffany, Real Property, 3rd Ed., vol. 5, p. 372;

Everts v. Matteson, 21 C. 2d 437, 447.

This is, indeed, conceded in Petitioner's brief, p. 53, where Petitioner speaks of "the issue of whether a purchaser of mortgaged property, takes subject to the mortgage . . . or *assumes* (viz., *incurring personal liability to the mortgagee . . .*)" (Italics supplied.)

But, in this "third category" of methods of transfer of mortgaged property, obtaining in the instant case, there is no such liability of purchaser to mortgagee. Thus, in the above cited article by Professors Storke and Sears, it is declared (38 Cornell Law Quarterly, p. 199), that:

"In a Grantor-to-Discharge transaction, the grantee is only a *real* surety, never a *principal* and *never personally liable*. (Osborne, Mortgages, 248(3) 1951)" (Italics supplied).

(A "real" surety being defined, *id.*, p. 193, as one who has no *personal* liability, but whose liability is limited to certain property owned by him.)

Cf. *Ayers v. Makely*, 131 N.C. 60, 42 S.E. 454.

In the present case, indeed, the conceded facts make the absence of purchaser's liability especially clear. The intent that the purchaser shall *not* presently assume, appears incontrovertibly from the very face of the contract. For it provides, as stated above, only for a *possible future* assumption, 2 to 12 years hence (R. 126; *supra*, pp. 7-8) which is quite incompatible with any intent that there should be a present assumption. As the Tax Court declared, (R. 135):

"The foregoing provisions of the agreement makes it clear that there was no assumption of the mortgage when a property was sold by petitioners. As is clearly stated, the buyer agreed to assume the mortgage upon conveyance of the property by the seller at some time from 5 to 12 years after the first-period installments had been made. The regulation has no application until there is an actual assumption."

And, to repeat, the option to take title and assume, at such future date, was *in no case* exercised (*supra*, p. 8). Consequently, they play no part in this case.

Helvering v. San Joaquin etc. Co., 297 U.S. 496;

Lucas v. North Texas Co., 281 U.S. 11;

C. A. Cochran, 23 B.T.A. 616, 619.

The intent, obviously, was for purchaser to become liable to the mortgagee Bank, only when and if, years hence, he took title and *then* assumed. Furthermore, the document actually signed in preparation for this possible contingency was not an assumption, but a mere guarantee to the Bank, which, even if it ever came into operation, would still have left the respondent vendors primarily liable (R. 127, 31),—a circumstance which, in itself, is utterly irreconcilable with the claim of assumption; for it is elementary that it is of the essence of an assumption that, as between the parties, the *purchaser* becomes primarily liable.

Petitioner's brief lays heavy emphasis upon the various documents, including the so-called "Purchaser's Certificate," signed by purchaser, in connection with the contract of sale; but far from indicating any present intent to assume, these documents, so far as they are relevant at all, indicate precisely the opposite. As already shown (*supra*, pp. 7-8), these papers were prepared only for use in a possibly *future* contingency which never materialized, and which, by the terms of the contract, could not arise for from 2 to 12 years hence (*supra*, pp. 7-8). The loan to respondents from the mortgagee Bank was complete long before the purchaser appeared in the transaction; and so far as the F.H.A. was concerned, by the very terms of the document cited (*viz.*, "Consent to Substitution of Mortgagors under Title VI"), which contained the "Purchaser's Certificate," it *could not* come into immediate effect, for prior payment of at least 10% of the F.H.A. valuation, or the purchase price, was a prerequisite (*supra*, p. 10). And to repeat, in the actual event, it *never* took effect.

All of these considerations, indeed, were so clear to all concerned, that, in the Tax Court below, it was *conceded* that there was, at no time, any liability of the purchasers herein to the mortgagee Bank, and so stipulated (R. 136, 30, 55-56). And in the here manifest absence of such liability of the purchaser to the mortgagee, it is assuredly idle to speak of "assumption."

Furthermore, it has been squarely held—and in connection with a pre-1926 regulation relating to installment sales which was the predecessor of the very regulation here involved—that the type of transfer here involved is not an assumption.

Thus, in A.R.M. 140 (C.B. 5, p. 90) there is embodied a memorandum from the Solicitor of Internal Revenue, dealing with a situation where mortgaged property was sold on the installment plan, the purchaser agreeing to pay a sum stated by a certain date "in accordance with the note and mortgage executed by the parties of the first part to" the mortgagee. The Solicitor held that this did not constitute an "assumption" of the mortgage debt, and should not be treated as such, for purposes of calculating "initial payments" (under the pre-1926 Regulations), declaring:

"In the present case, however, it does not appear that the purchaser assumes the mortgage on the property referred to above. He merely agreed to pay an amount to the seller equal to the amount of the mortgage on or before June, 1927, as the final payment on the property." (Italics supplied.)

Similarly, in *Ayers v. Makely*, 131 N.C. 60, 42 S.E. 454, there was a sale of mortgaged premises on the install-

ment plan, and the purchaser agreed to make payments which, under the contract, "were to be applied to the payment of the encumbrances." It was held that there was no "assumption" of the mortgage by the purchaser.

Similarly, in *Clinton Park Development Co.*, 11 T.C.M. 768, aff'd., 209 F. 2d 951, sales of houses covered by a mortgage, in a war-time real estate subdivision, were made, and the contracts provided that the purchasers should pay certain amounts weekly to the vendor, of which a specified portion should be paid by the vendor on the mortgage debt. It was held by the Tax Court that the vendor "did not pass the burden of the mortgage to the purchaser at the time the contract was signed." (11 T.C.M., p. 770), and the Circuit Court pertinently declared, on affirmance:

"The benefits and burdens of ownership did not pass from the taxpayer to the grantees at the time of the execution of the agreements." (209 F. 2d, at p. 953.)

(5) The law is thus very well established that, in the type of sale here present, there is no assumption of the mortgage debt by the purchaser. Petitioner's brief, nevertheless, argues that, whatever the general law may be in this regard, a special rule obtains in California, under which the present facts do constitute an assumption. This claim of a special California rule is, however, without merit. The well-known California cases cited by petitioner merely restate the general rules obtaining widely throughout the other various jurisdictions and in no way affect the conclusions reached in the preceding pages.

Thus, Petitioner's brief relies on the doctrine of various California cases that an assumption may be implied

from the intent of the parties.⁷ But this avails petitioner not at all, for, as has been amply demonstrated above, the clear intent of the parties was precisely to the contrary (*supra*, pp. 39-41).

Similarly, petitioner's brief relies on the doctrine set forth in *Hopkins v. Warner*, 109 Cal. 133, to the effect that "the purchaser's personal liability to the mortgagee springs from the well known rule in equity that a creditor is entitled to the benefit of any obligations or securities given by his debtor to one who has become a surety of such debtor for the payment of the debt" (Pet. Br., p. 23). But this statement (which is by no means a special California doctrine, but merely a common rationale for purchaser's liability to the mortgagee), likewise is of no avail to Petitioner, to establish an assumption herein. It merely describes a *result* of assumption, when there has been such; and depends, for its application, upon a prior agreement of the grantor and grantee that, as between themselves, the latter shall be the primary debtor, and the former merely a surety. *Hopkins v. Warner*, *supra*. 109 Cal. at pp. 135-6; *Keller v. Ashford*, 133 U.S. 610, 613, (cited in the *Hopkins* case), where the Supreme Court declared: "In short, if one person agrees with another to be primarily liable for a debt due from that other to a third person, so that as between the parties to the agreement the first is the principal and the second the surety,

⁷As a matter of fact, some years prior to the time the contracts herein involved were executed, the law had been materially changed in this regard in California, by statute, which requires that assumption shall be specifically provided for in the conveyance. *Cal. Civ. Code*, Sec. 1624. But respondents have no need to rely upon this or similar statutes.

the creditor of such surety is entitled, in equity, to be substituted in his place for the purpose of compelling such principal to pay the debt." (Italics supplied.) In the present case, as has been repeatedly brought out, nothing of this sort occurred. On the contrary, the purchaser contemplated only a possible *future* assumption and, even then, in the transaction as actually carried out, would have become only a guarantor, and never "primarily liable" (*supra*, p. 40).

Similarly, petitioner is not aided by the statement quoted from *White v. Schader*, 185 Cal. 606, 611, that "where the payment of a mortgage forms part of the consideration for a conveyance . . . the grantee is bound to pay the same." This language, which is a very common formula, does not refer to payment of the amount of the mortgage to the vendor, as in the present case, and in all cases of this "third category," but, as exemplified in the facts and statements in innumerable cases using the above phrase, means that the amount of the mortgage, though counting as part of the purchase price, is *deducted* from what is paid the vendor, and is to be devoted, instead, to paying off the mortgage. This appears in the very cases cited in petitioner's brief, and in authorities relied upon by such cases.

Thus, Pomeroy's Equity Jurisprudence, sec. 1206 (cited in *Hopkins v. Warner*, Pet. Br., p. 54), declares:

"Sec. 1206. *Grantee assumes the mortgage.* The mortgagor may not only convey the premises 'subject to' the mortgage; he may also convey them in such a manner that the grantee assumes the payment of the mortgage debt, and thus renders himself liable therefor. The element which lies at the bottom of such

assumption, and which alone gives it efficacy according to the theory held by some courts, is the fact that *the mortgage debt is included in the purchase price as a constituent part thereof, and the grantee actually pays or secures to his grantor only the balance of the gross price after deducting such debt.*" (Italics supplied.)

Similarly, in *Brosseau v. Lowy*, 207 Ill. 405, 70 N.E. 901, relied on in *White v. Schader, supra*, (Pet. Br. p. 54), only a part of the consideration was paid to the vendor; and the Court there relies upon the case of *Thayer v. Torrey*, 37 N.J.L. 339, where, again, the amount of the mortgage was *deducted* from what was paid directly to the vendor, and the Court, after declaring that "the mortgage . . . is to be paid as part of the consideration," declares further: "*Instead of paying him (the vendor) the entire consideration money, out of which the mortgage may be paid, so much of the consideration as may be needful is appropriated by the parties for that purpose.*"

Similarly, *Wiltsie on Mortgage Foreclosure*, (5th ed.), vol. 1, p. 220, declares that "where . . . the amount of the mortgage represents a portion of the purchase price, *the grantee paying the difference between such amount and the agreed price*, there is, in the absence of an apparent intent to the contrary, an implied agreement on the part of the grantee to pay the mortgage." (Italics supplied.)

Similarly, in all the other cases cited by the California decisions, this general formula uniformly refers to situations where the amount of the mortgage is *not* paid to the vendor. In a word, they have nothing to do with the present situation.

There is thus no substance whatever in petitioner's resort to "California law." It must be noted, however, that the petitioner's whole argument in this branch of his brief, which attempts to establish a personal liability of the purchaser to the mortgagee Bank (Pet. Br., pp. 23, 53 *ff*), is quite out of court, in view of the express stipulation of the parties that no such liability ever existed (R. 136, 30, 55-56), as to which stipulation, petitioner's brief is discreetly silent. The whole question here, moreover, as contended by petitioner's brief (p. 53), is said by him to be "one of intent—viz., a question of fact"; and the stipulation was, clearly, essentially an agreement as to the manifest intent of the parties in this respect (*supra*, pp. 39-41). (*Cf.*, the court's enforcement of the stipulation in *Minneapolis Brewing Co. v. Merritt*, 143 F. Supp. 146).

Furthermore, the attempt of petitioner, at this late date, to introduce a new issue, for the purpose of *reversing* the decision of the Tax Court, is contrary to settled practice, and will not be considered. *Kotteman v. Com.*, 81 F. 2d 621, and authorities there cited; *U.S. v. Waechter*, 195 F. 2d 963; *Homann v. Com.*, 230 F. 2d 671. It is only in "exceptional circumstances" that the rule is relaxed (*Kotteman v. Com.*, *supra*), and none such here appear. On the contrary, it would be grossly inequitable to permit this question, essentially one of fact, by petitioner's own analysis, to be now raised for the first time.

In any event, irrespective of these binding considerations, the intent of the parties that the purchaser should not assume at the time of the sale, is overwhelmingly clear.

(6) Petitioner's brief, further, argues that, whether or not there actually was an assumption of the mortgage debt herein, the transaction, from a "practical" point of view, should be treated as such, because the respondents took a similar "realistic benefit" therefrom (Pet. Br., pp. 20-22, 42-46). There is nothing "practical" about this argument; it is merely confused. The relevant question here, is not whether the two different situations are alike in economic benefit, but *whether they are alike from the point of view of the practical and efficient operation of sec. 44*. And from this crucially important point of view, as already pointed out in detail (*supra*, pp. 31-36) the two situations are totally different in all their vital and essential aspects; *viz.*, in an assumption, the amount of the mortgage *is not paid to the vendor, and never gets into the installments payable to him*; the amount of the payments on the mortgage is not determinable, with certainty, from the vendor's own books, nor are such payments necessarily limited to the period of payment of installments. Furthermore, in an assumption, the vendee becomes directly and primarily liable to the mortgagee. These are the very factors, and the *sole* factors, on the ground of which the Supreme Court in the *S. & L. Bldg. Corp.* case (*infra*, pp. 51-53) and the court in *Lucas v. Schneider*, (47 F.2d 106; *infra*, pp. 61-62), validated the Regulation "in the unusual circumstances presented." They are the whole basis and occasion for the Regulation. But *none of these crucial factors are present in the instant case*.

It is thus merely frivolous to argue that though there may indeed be no assumption here, it is practically the

same thing. On the contrary, the situations differ in just those particulars which are here decisive.

Essentially, the petitioner's argument here is an attempt to apply the doctrine of *Crane v. Com.*, 331 U.S. 1, which deals with the reporting of income for *general* tax law purposes, to a situation where it has no application, viz., the *special* method of reporting permitted by sec. 44. The *Crane* case will be considered in detail in Point III, (*infra*, pp. 74-80). At this point, it is sufficient to note that the very reason for the enactment of sec. 44 was to permit taxpayer to *defer* the reporting of what, under generally established principles, was unquestionably present income.

It is simply not true that, under sec. 44, if the "real" benefit is similar, two different situations must be treated alike. Sec. 44 provides a special scheme, available on certain conditions, and whether or not a taxpayer comes within these special conditions, or fails to do so, does not depend upon the equivalence of the two situations from the point of view of economic benefit. Thus, e.g., from the point of view of practical benefit, it might be held that the obligation of purchasers on an installment contract are "in effect" equivalent to cash (at least to the extent that they have a fair market value). Such, indeed, is the general law. But nevertheless, it is *not* treated, under sec. 44, in the same manner. Even if evidenced by notes, secured by ample independent collateral, and thus "realistically" indubitably "the equivalent" of cash, they cannot be so treated, under sec. 44. *R. L. Brown Coal & Coke Co. et al*, 14 B.T.A. 609, 614; *Mertens, Federal Income Taxation*, vol. 2, p. 478.

To sum up: sec. 44 extends a privilege. In the usual types of transfers of mortgaged property, the exercise of the privilege is circumscribed, necessarily circumscribed, in accordance with the present Regulation, by the practical difficulties in the application of the statutory scheme. In the type of sale in the present case, whether or not it is economically similar, no such complications arise, and there is therefore no reason why respondents should be denied the full and uncurtailed measure of relief extended by the statute.

Petitioner's final suggestion is that the Regulation should be construed to apply by its terms to *all* transfers of mortgaged property whatsoever, whether or nor they fall into the category of "merely taken subject to," or "assumed"; that these are mentioned merely "by way of illustration" (Pet. Br. p. 63). This, too is a wholly new issue, not advanced in the court below, and, indeed, never thought of or mentioned by anyone in any of the cases concerning the Regulation in all the years since it was promulgated. It is a mere afterthought, not properly before this Court at this time (*supra*, p. 46).

It is, in any event, without substance. It is wholly inconsistent, of course, with *G.C.M. 3048* (*supra*, p. 22), and a palpably artificial and unnatural reading. It is an elementary canon of construction that general words are to be limited by their context to the more restricted application indicated by the provision as a whole.

Thus, 82 *C.J.S.* 657-8 declares that "the meaning of words of general import in a statute is limited by words

of restricted import immediately following and relating to the same subject." See also:

St. Luke's Hospital v. Godet, 171 Misc. (N.Y.) 7,
11 N.Y.S. 2d 900;

Application of Rogers, 229 F. 2d 754 (9 Cir.; revd.
on other grounds, 350 U.S. 809);

Jefferson v. U.S., 77 F. Supp. 706, 712;

U. S. v. Fed. Power Comm., 191 F. 2d 796, 802,
25 R.C.L., p. 971.

In the present case, as has been shown, the whole purpose and justification for the Regulation lay in the difficulties encountered in attempting to apply sec. 44 to transfers where the mortgage was "assumed," or taken "subject to," in the usual sense, because, in these categories, the *entire* selling price is not included in the "installments actually received" by the vendor, and that, for this reason, the Regulation is not to be construed as here applicable. Precisely the same considerations, which foreclose the adoption of the broadest possible meaning for the phrase "subject to," (*supra*, pp. 28-36) operate to foreclose the present attempt of petitioner to widen the scope of the Regulation. It would be, indeed, senseless, to adopt the "usual" meaning of "subject to," because this is the meaning in harmony with the purpose of the Regulation and of the statute—and then adopt petitioner's present argument.

So far as petitioner's stress on "every sale of *excess* mortgage realty" in this connection is concerned (Pet. Br., p. 62), the reason for the amendment of the Regulation, relating to "excess" mortgages, was stated very clearly by the Supreme Court in the *S. & L. Bldg. Corp.*

case (*infra*, pp. 51-53); viz., that such excess was, indubitably, part of the profit on the entire sale, but was *not* part of the "installments actually received" by the vendor, and "would never, actually, come into vendor's hands." That was the sole ground on which the Supreme Court justified the regulation in this respect, as a necessary and practicable way to reach the profit. But in the present case, as has been pointed out, nothing of the sort obtains. Here, there is no possible escape of profit or postponement of collection. *All* of the amount of the mortgage, including the "excess," is included in the "installments actually received," and is reached, in due course, by operation of the plain provisions of sec. 44, precisely as intended thereby.

(7) The leading case upon the purpose and validity of the Regulation is *Burnet v. S. & L. Bldg. Corp.*, 288 U.S. 406. Here the Supreme Court authoritatively and carefully discussed the considerations which gave rise to and justified the Regulation. In that case, there was a sale of property with an "excess" mortgage, which the purchaser assumed, making payments directly to the mortgagee. The Court sustained the Regulation, but upon grounds which clearly exclude the present case from its rationale and justification. It pointed out that in general the installment method of reporting allowed the vendor "to distribute the profit through the years when the purchase money was actually received," but that the method of reporting income contended for by the taxpayer (which involved basing the tax, not solely upon installments actually received by the vendor, but upon payments made by the assuming grantee to the mortgagee,

as well) “*would inevitably lead to many practical difficulties, might postpone collection far beyond the time when the vendor would receive any direct payments; and probably would render impossible determination from the taxpayer’s own books of what he should account for.*” (p. 414, italics supplied.)

As to the inclusion of the excess of mortgage over vendor’s base, as part of the “initial payments,” the Court pointed out that this excess “represented part of the admitted profit,” but, under the circumstances of the case then before it (an assumption), “*would never actually come into the vendor’s hands,*” and the Commissioner’s treatment was therefore “appropriate in the *unusual circumstances* presented”—“a practical way to accomplish the end.” (pp. 414-415, italics supplied.)

The gist of the decision was that “some possible departure from the method prescribed for ordinary circumstances is not enough to destroy what he [the Commissioner] deemed *necessary to meet the unusual conditions.*” (p. 414, italics supplied.) In the present case, however, as explained in detail in the above pages, we are dealing with “ordinary circumstances,” and there is no need for special measures “deemed necessary to meet unusual conditions.” For the existence of a mortgage does not in any way complicate the transaction, so far as the operations of sec. 44 are concerned, *except where it has the result of causing less than the full purchase price to be paid to the vendor.* (*supra*, pp. 31-36.) This was the situation, in the case before the Supreme Court. It is not the situation in the instant case, which raises not a single one of the difficulties adverted to in the Court’s opinion.

Finally, it is to be noted that the procedure followed by the Commissioner in the *S. & L. Bldg. Corp.* case, and there validated by the Supreme Court, held "*total contract price*" to be "*the total amount payable directly to the vendor*" (p. 412; italics supplied). This, of course, is precisely the contention of respondents herein.

(8) The precise point here at issue has been directly passed on only twice; first, in *G.C.M. 3048* (C.B. VII-1, p. 60, Jan.-June, 1928); and second, by the Tax Court below in the instant case. It is striking that in both these instances the Regulation was held not to apply.

The holding in *G.C.M. 3048*, *supra*, which is especially significant as having been rendered in 1928, almost contemporaneously with the promulgation of the Regulation in 1926, is well summarized by the Tax Court in its opinion, as follows (R. 137-138):

"The position taken by respondent (Commissioner) here appears contrary to *G.C.M. 3048* (C.B. VII-1, p. 60, Jan.-June, 1928), where it was ruled that the regulation in question was inapplicable. The form of the regulation there involved contained language identical to that before us (viz., 'In the sale of mortgaged property . . . whether the property is merely taken subject to the mortgage or whether the mortgage is assumed by the purchaser'). The situation dealt with was one where real estate was sold on installments. The purchaser did not assume the mortgage but made monthly payments to the vendor who in turn made the mortgage payments, similarly to the case here. It was held that the rule prescribed in the regulations for the determination of the percentage of profit returnable each year in the case of mortgaged property sold on the installment plan was inapplicable."

Specifically, the above *G.C.M. 3048* held that "so far as the amount of any mortgage is concerned," in the above circumstances, "'the total contract price' and 'the purchase price' may be regarded as equivalent." Petitioner's brief (p. 48) attempts to distinguish this precedent on the ground that there was a unique arrangement whereby the vendor could encumber the property by mortgage, after the sale, to the extent of the balance due on the contract. But the General Counsel, in the above, specifically declared that "If *prior* to the execution of the contract there was a mortgage against the property, *the same principles apply*" (italics supplied).

Further, the various cases cited in petitioner's brief, dealing with the regulation, do not support his position. Thus the *S. & L. Bldg. Corp.* case, 288 U.S. 406, as has been seen, so far from supporting petitioner, militates, in its whole rationale, conclusively against him. *Lucas v. Schneider*, 47 F. 2d 1006 (see *infra*, pp. 61-62), involved an outright assumption. So, too, did most of the B.T.A. cases cited by petitioner's brief (p. 28), as in the case of *Dabriada Realty Co. v. Com.*, 5 B.T.A. 905, and *Watson v. Com.*, 20 B.T.A. 270. *Bosshardt v. Com.*, 4 B.T.A. 1262, did not even involve a mortgage, at all.

In *Metropolitan Properties Corp.*, 24 B.T.A. 220, the taxpayer raised none of the considerations upon which the respondents here rely, but instead, attacked the validity of the regulation *in toto*, even as applied to an outright assumption, and based his argument upon the decision in favor of the taxpayer, on that ground, in the *Schneider* case in the District Court (unreported). (Brief for pet. in *Metropolitan Properties Corp.* case in B.T.A.,

p. 18.) The Board of Tax Appeals, in its opinion in the *Metropolitan* case, therefore, merely decided adversely to the taxpayer, on the ground that the *Schneider* case (involving outright assumption; *infra*, pp. 61-62) had been reversed in the Circuit Court, declaring: "We agree with the respondent (Commissioner). See *Lucas v. Schneider*, 47 F. 2d 1006, reversing the case relied upon by the petitioner. . ."

None of the points here at issue were raised in the *Metropolitan* case, much less passed on. The case is therefore no precedent in these issues. (See *Montana-Dakota Utilities Co. v. Com.*, 25 T.C. 408, 416, where the Tax Court pointed out: "In any event, it does not appear that the question here was litigated or considered in" the case claimed as precedent. "Accordingly, the case is not to be regarded as authority for the proposition for which respondent stands." To same effect, *Cold Metal Process Co. v. Com.*, 25 T.C. 1333, 1348).

In *Pacheco Creek Orchard Co.*, 12 B.T.A. 1358 (Pet's Br., p. 28) similarly, the points now raised by respondents did not appear, and were not discussed or passed on, and this case, therefore, likewise can be no precedent for petitioner. But furthermore, in the *Pacheco* case, it was evident that while the formal written contract did not contain an assumption, in the *actual execution* of the contract the purchaser did assume,⁸ and did pay off the mortgage not to the vendor but *directly to the mortgagee* (12 B.T.A.

⁸This transpired before the amendment of Cal. Civ. Code. Sec. 1624, which invalidated any assumption not specifically provided for in the conveyance.

at p. 1362). It was thus in no way, in the actual execution of the transaction, like the present case.

Even if the facts and holding in the *Pacheco* case had been different, and had supported the Commissioner's present contentions, moreover, this would be of little consequence to the decision of the instant case. As the Supreme Court has declared: "One decision construing an act does not approach the dignity of a well settled interpretation." *U. S. v. Raynor*, 302 U.S. 540, 552; *White v. Winchester*, 315 U.S. 32, 40.

The present case is, essentially, one for this Court to decide upon its merits. Such direct authority as does exist is, as shown above, in favor of respondents;⁹ and, above

⁹The conclusion contended for by respondents, moreover, is in entire accordance with the practical usage and understanding of leading authorities in the accounting field. Thus, *W. A. Paton*, in *Advanced Accounting* (1941), after explaining the regulation respecting installment sales of real property, which require the amount of the mortgage (to the extent that it does not exceed the vendor's basis) to be deducted from the state selling price, in finding the "total contract price," points out situations where the Regulation is inapplicable, and declares (p. 369):

"It may also be assumed that *where the agreement contemplates final acquisition of an unencumbered property by the buyer* the amount of any lien outstanding at date of sale does not affect the calculation of taxable income." (Ital. supplied.)

It is well to remember, moreover, that while accounting practice is, concededly, not determinative, where opposed to valid mandates of a statute or regulation, it is by no means without significance. As the Federal Court, Second Circuit, has recently well declared (*Com. v. Hirshon Trust Co.*, 1954, 213 F. 2d 523, 528):

". . . there is frequently a divergence between the tax laws and generally accepted business concepts. That may well be true, but where, as here, *the statutory pattern of taxation and the language used to accomplish it are both in accord with sound accounting and business practices*, such an argument furnishes no ground for reading the statute otherwise than it is written."

all, the case is to be governed by the purpose and justification of the regulation laid down by the Supreme Court in the *S. & L. Bldg. Corp.* case, *supra*, and, basically, by the provisions and intent of sec. 44 itself.

POINT II.

IF INTERPRETED AS CONTENDED FOR BY THE PETITIONER, THE REGULATION WOULD BE VOID, BECAUSE IN VIOLATION OF THE SPECIFIC PROVISIONS OF I.R.C., SEC. 44.

Petitioner's brief asserts, at various points (pp. 19, 27) that "The validity of the regulation is not here in question," and "The taxpayers have not questioned the validity of the regulation." These statements can only be explained as unintentionally misleading. There is, indeed, no question of the validity of the regulation, as applied to transfers "subject to" the mortgage, in the usual sense discussed in Point I, *supra*, or where there is an assumption, with grantee paying off the mortgage directly to the mortgagee. But, *if interpreted so as to apply to the type of transfer here involved*, the respondents have contended throughout that it would be void, as in conflict with the plain provisions of sec. 44. Respondents so argued in the Tax Court below (R. 116-117), as the Petitioner's brief itself finally states (Pet. Br. p. 30). The Tax Court, having construed the Regulation in accordance with respondents' contentions, had no need to consider the question of invalidity, if otherwise construed.

It has been shown in Point I that the Petitioner's construction of the regulation violates the whole general intent of sec. 44, and that this departure from the statute

is here wholly unnecessary. But, as will be shown in the present Point II, the regulation, so construed, would violate not only the general intent, but the specific and positive provisions of that section.

The cases are legion which hold that this may not be done. As the Supreme Court declared in *Manhattan Co. v. Com.*, 297 U.S. 129, 134-5, holding invalid the Treasury regulation there involved:

“The power of an administrative officer or board to administer a federal statute and to prescribe rules and regulations to that end is not the power to make law—for no such power can be delegated by Congress—but the power to adopt regulations to carry into effect the will of Congress as expressed in the statute. *A regulation which does not do this, but operates to create a rule out of harmony with the statute is a mere nullity. Lynch v. Tilden Produce Co.*, 265 U.S. 315, 320-322; *Miller v. U.S.*, 294 U.S. 435, 439-440, and cases cited. And not only must a regulation, in order to be valid, be consistent with the statute, but it must be reasonable. *International Ry. Co. v. Davidson*, 257 U.S. 506, 514. The original regulation *as applied to a situation like that under review* is both inconsistent with the statute and unreasonable.” (Italics supplied.)

Similarly, it has been held that a regulation has no application where, if applied to the facts then presented, it “would fly in the face” of the statute (*Busch’s Kredit Jewelry Co. v. Com.*, 179 F. 2d 298, 300). And in the *S. & L. Building Corp.* case, itself (288 U.S. 406, *supra*), the Supreme Court, as already indicated, was careful to point out, three times in the course of its decision, that,

in the "unusual circumstances" there presented, the regulations "violate no definite provision of the statute."

In the present case, the Petitioner's interpretation of the Regulation comes squarely within the condemnation of the above rule. It flatly contradicts the "definite provisions" of sec. 44 in at least two respects: (1) it violates the express statutory definition of what is to be included within the "*initial payments*" on the contract (*viz.* "payments received in cash or property other than evidences of indebtedness of the purchaser during the taxable period in which the sale or other disposition is made"); and (2) it violates the express statutory direction that the taxpayer, reporting on the installment basis, should return "in any taxable year" the statutory proportion "*of the installment payments actually received in that year.*" Both of these definite directions are here flagrantly violated; the Petitioner treats as received, and part of the initial payments, what is, in fact, *not* received; and he treats, as *not* received, installment payments, or portions thereof, which, in fact, *are* received.

(1) Turning to the first flat contradiction between the Regulation, as interpreted by Petitioner, and the express provisions of the statute, the definition of "initial payments," the statute, to repeat, directs that there shall be recognized, as part of such initial payments, *only* "payments received in cash or property other than evidences of indebtedness of the purchaser" during the taxable year of the sale. These "payments received in cash or property," moreover, refer, it has been held, *only* to "payments received from the purchaser of the land"—and not to other possible kinds of income. *Duram Building Co. v.*

Com. (66 F. 2d 253, 254). To the same effect, and approving the *Duram* case, see *G.C.M. 12987*, C.B. XIII-1, p. 206, in which the opinion was rendered by Robert H. Jackson, later Justice of the Supreme Court.)

In spite of these explicit provisions, the Petitioner herein seeks to include, as taxable income, of the year of sale, the entire amount of the excess of the mortgage over respondents' basis of the property sold. As stressed above, the "indebtedness of the purchaser to the vendor," in the present case, covers the entire amount of the mortgage *including the "excess" part thereof*. The part of the profit represented by such "excess" is an integral and essential part of what is owed by the purchaser to the vendor, and stands upon the same footing with respect to the mandate of sec. 44 respecting such indebtedness. It is simply a part of the total debt, directly incorporated, without differentiation, into the regular installments payable under the contract *to the vendor, and the vendor alone*. It is thus plainly and inescapably a part of the "indebtedness of the purchaser," as this term has been interpreted by the courts, which the statute categorically commands may not be included in "initial payments."

Petitioner seeks to include such "excess" as taxable income of the year of sale, although no such amount, or any part thereof, has, in fact, as yet been paid by the vendor to the vendee; that it is represented only by "evidences of indebtedness of the purchaser;" and that it may *never* be paid to the vendor by such purchaser!

This procedure is in fundamental conflict with the whole method of Section 44. As the court declared in *May, Stern & Co. v. Com.*, 181 F. 2d 407, 411:

“In the South Texas case (*C.I.R. v. South Texas Co.*, 333 U.S. 496) the Supreme Court . . . reasoned that, for the taxpayer who has reported income on the installment basis under sec. 44(a), uncollected balances of installments are recognized, not at the time of the sale, but in the future *when they are collected* and reported as taxable income.” (Italics supplied.)

The contradiction between the command of the statute and the action sought to be taken by Petitioner is thus a patent and glaring one. His sole asserted justification is that, regardless of the statute, this is what the Regulation requires, and that the Regulation has been held valid by the courts. As has been shown, the Regulation does *not* require any such procedure, in a situation like that here obtaining; but, assuming that it did, it is equally clear that the Regulation, so construed, would be invalid. For the sole ground upon which the courts have sustained the Regulation, insofar as it requires such “excess” to be included in “initial payments,” and reconciled this provision with the specific command of the statute, is one totally inapplicable to the case at bar.

Thus, in *Lucas v. Schneider*, 47 F. 2d 1006, where the validity of this provision of the Regulation was passed upon and upheld, the court held only that the Regulation was valid, in connection with a sale where the mortgage was *assumed*, and the whole ground of its decision was based solely upon this circumstance. The court there reasoned that, although the statute prohibited the inclusion in “initial payments” of any evidence of indebtedness of the purchaser, this language referred to indebtedness of the purchaser to the *venditor*, and did not prohibit

the inclusion, as property received, of evidences of indebtedness of the purchaser to a *third person—the mortgagee*; and that, by assuming the mortgage, the purchaser became so indebted to the mortgagee; and declared (p. 1008) that the assumption of the mortgage by the vendee

“was not a promise to pay the seller; it was a promise to the seller to pay the mortgagee. Its effect in equity was to relieve the seller of any direct liability. As between seller and purchaser, it constituted the seller the surety and the purchaser the principal debtor for the mortgage. Under the law of Kentucky . . . the purchaser is liable personally to the mortgagee.” (Italics supplied.)

As is evident, the above case differentiated sharply between, and rested wholly on this distinction between (a) an indebtedness of the purchaser *to the seller* (which, by the terms of the statute, could not be considered as part of “initial payments”) and (b) an indebtedness of the purchaser to a third party.

But, in the instant case, there was no such assumption; the purchasers were *at no time*, as is stipulated, under any liability to the Bank (*supra*, p. 41); and the respondents remained at all times primarily liable—indeed (with the exception of the guaranty of the Brookfield stockholders and their wives) *solely* liable (*supra*, p. 12). The purchaser’s *only* indebtedness, in the instant case—the only “property” which the vendor received, other than cash paid in down payment and installments—was *to the vendor*, which the statute expressly prohibits from inclusion in “initial payments.”

Similarly, in the *S. & L. Building Corp.* case, *supra* (288 U.S. 406), where the Regulation was likewise upheld, as applied to the “unusual circumstances” then presented, the court was likewise dealing with a sale where the mortgage had been *assumed*; and, as already indicated (*supra*, pp. 51-53), stated that the Commissioner’s procedure with respect to the “excess” mortgage, was there necessary to ensure that the entire profit be taxed during the period of direct payments to the vendor—whereas, in the present situation, as explained in detail in Point I, there is no such necessity; the normal application of the statute, according to its plain and specific provisions, completely covering the situation.

In a word, the sole ground and rationale on which the courts have determined that the provision of the Regulation requiring the inclusion of “excess” mortgage in “initial payments” does not affront the statute, is here utterly absent; and the statutory prohibition applies directly and without qualification. If construed as Petitioner contends, so as to apply to the situation here presented, the Regulation “flies in the face of the statute,” and does so without need or practical justification; and must therefore be held invalid.

(2) Equally striking is the direct conflict between Petitioner’s interpretation of the Regulation, and the specific direction of sec. 44, that the vendor return, as income from an installment sale in any taxable year, the stated proportion “*of the installment payments actually received in that year.*” Instead of following this perfectly specific and perfectly plain mandate, the Petitioner

in the present case takes the stated proportion of *only a part* of the installment payments actually received, and totally excludes the remainder from consideration.¹⁰

The amount of actual cash payments by the purchaser to the vendor which the Petitioner's ledgerdemain causes to disappear from consideration is computed by him according to a rather complex formula viz., petitioner recognizes as received only "the principal portion of the level of payments collected during the period the first 27 installment payments are received over the level of payments prevailing during the remaining term of the contract;" (R. 46-47, 67); but, in substance, he is refusing to recognize as "installment payments actually received," amounts of cash paid to the vendor which are equal to sums that are due, or have been due, by the vendor on the mortgage loan (which the purchaser has not assumed, and on which he has no liability). And since he recognizes, as received, only *the difference in level* of payment between the first 27 payments (which are at the higher level), and those thereafter (i.e., roughly the amount by which the prior installments exceed the latter level), it is evident that, according to his method, after the first 27

¹⁰Thus, for example, in the year 1943, respondent Stonecrest received, in total cash payments on all sales, \$345,348.15; but Petitioner recognized only \$77,689.29, (Stonecrest Stip., pp. 21, 24; the figure \$77,628.29 representing the sum of "down payments" and "other collections" there shown as recognized by Petitioner)—and thus *excluding* from consideration \$267,658.86 of actual cash received. Similarly, in the year 1944, Stonecrest received in actual cash, \$297,313.87; but Petitioner recognized only \$53,210.20, and excluded \$247,624.56 (*id.*). See, for total amounts of installment payments actually received, excluded from consideration by Petitioner, *supra*, pp. 14-15.

payments have been made, *no part whatsoever* of any of the subsequent installments may be recognized at all!

The result of the above is, among other things, that if the contract is performed according to its terms, over a period of 20-25 years of installments, *no installments received in the entire later period of approximately 18 or 23 years*, would be recognized by Petitioner as received—and the whole profit on the entire contract bunched in the first 27 months.

This bizarre and unprecedented—and unjust—result is, in itself, a telling commentary on the unnatural character of Petitioner's construction of the Regulation.

All this "exclusion" by the Petitioner of cash actually received in installments, is, on its face, flatly opposed to Sec. 44, which commands that all installment payments actually received be used in computing the profit for that year; and it violates equally the rule, which is a corollary of sec. 44, that the division of each installment received, into return of cost, and profit, shall be "the same for each installment" (*Com. v. Macklin Corp.*, 164 F. 2d 27, 29).

In the case of a corporation, such as respondent Brookfield, which has engaged in only a single operation and, in a year or two, made numerous sales, the installments on which are to run for a long future period (*supra*, pp. 4, 6) this would result in a situation where vendor would be obliged to sustain expenses of collection servicing, etc., over a long period of time, but would have no income recognized against which to offset such expenses—a grossly unreasonable result, and one opposed to the clear intentment of the installment method of reporting. *J. C. Nichols Land Co. v. Com.*, 65 F. 2d 437, 438.

Nothing remotely like this procedure was present in the *S. & L. Bldg. Corp.* case (or any other case); hitherto, the phrase "installment payments actually received" has meant, as in that case, all amounts actually paid directly to the vendor under the contract. Indeed, the Commissioner's own brief in that case clearly recognized that it was only because the payments there involved were not paid directly to the vendor, that they could be excluded from consideration, declaring (main brief for Comm., pet., in Sup. Ct., after certiorari granted, p. 20) that

"no inconsistency results from excluding the amounts of the assumed mortgages not in excess of the 'basis' from the 'total contract price' and the payments thereon from 'installment payments actually received, *for payments on such mortgages are not to be made to the taxpayer.*'" (Italics supplied.)

But in the present case, the payments *are* to be made to the taxpayer; and this difference is crucial. These payments cannot be excluded, consistently with the statute, from "installment payments actually received."

Nor is there any substance to petitioner's claim that the respondent is a mere "conduit," through which the purchaser's money passes to the Bank (Pet. br. pp. 36, 48). A conduit is one who has no independent interest of his own in the transaction, and is acting merely as an agent of another party or parties. But in the present instance, such a characterization is absurd. Respondents were at all times *personally liable* on the mortgage, and (with the exception of the Brookfield stockholders and their wives) solely liable (*supra*, p. 12). In making payments on the mortgage, they were paying off and

reducing *their own debt* to the Bank. In such circumstances, they had every interest in the transaction—particularly when it is borne in mind that it was a 90% mortgage, and that the purchasers were of very uncertain financial reliability, and realty values precarious (*supra*, p. 3). In a word, this “conduit” characterization is but a flimsy pretext, which in no way justifies disregard of the “installment payments actually received,” commanded by sec. 44 to be used as the basis for returning income.

The mere fact that parties have contracted in advance that certain contemplated payments shall be devoted to a specified use, when received, does not make the recipient a “conduit,” nor interfere with the recognition of receipt of income. Specifically, the fact that such contemplated payments are to be devoted to *making payments on a mortgage*, does not have any such effect. Thus, in the *Crane* case itself, 331 U.S. 1, the owner—at a time when she had a zero equity in the property—agreed with the mortgagee to devote the rentals from the property to making payments on the mortgage; and did so. But this did not reduce her to a mere “conduit.” On the contrary, as appears in the opinion of the Supreme Court, rentals, when received, counted as income of that year.

Again, in *Sterling v. Ham*, 3 F.Supp. 386, the plaintiff sold realty which was encumbered by a mortgage (record title being in the mortgagee, who had foreclosed, without disturbing plaintiff’s possession). The total purchase price was approximately \$58,000, of which approximately \$15,000 was cash and the balance deferred for a number of years. \$10,000 of the cash payment, however, was

used to clear the mortgage. The plaintiff sought to report the income from the sale on the installment basis, and the question was, whether the "initial payment" was in excess of the 25 per cent limit then prescribed; and this depended, in turn, upon whether or not the \$10,000 cash, supplied by the vendee, but used to pay off the mortgagee, constituted part of the "initial payment." The plaintiff claimed that it did not; that it was no part of his income; and that he was therefore entitled to treat the sale as an installment sale. The Commissioner insisted that it *was* part of the "initial payment."

The court held, first, that the fact that the \$10,000 was, as it appeared, actually paid through an attorney to the mortgagee, was of no significance, since the attorney acted as agent for the plaintiff; and the situation was precisely the same as if the payment were "made to him (the vendor) and then passed by him to the mortgagee"; and second, that the \$10,000 so paid by the vendee, used for the purpose of clearing the mortgage, *was part of vendor's income and was part of the "initial payment" under the statute and the regulations.* The court declared:

"This contention (of the vendor) cannot be sustained for the reason that the payment to the mortgagee, made at the direction and for the benefit of the plaintiff, had *the same effect as if made to him and then passed by him to the mortgagee.*"

The decision in the *Sterling* case *supra*, is, moreover, in line with a long series of authoritative precedents, establishing the rule that where income is received "the status of the money for tax purposes *did not change*

because it was agreed that it be devoted to a particular use. Cf. *Lucas v. Earl*, 281 U.S. 111.” (*Vermont Transit Co.*, 19 T.C. 1040.) (Ital. supplied.) Or, as the court declared in *Standard Slag Co. v. Com.* (63 F. 2d 820):

“The courts have uniformly held that income is none the less such in the year of its receipt *because subject to limitations* upon its use and disposal.”

(Citing numerous cases.) (Ital. supplied.)

See also:

Charlotte Union Bus Station v. Com., 209 F. 2d 586;
Bonds, Inc., 3 T.C.M. 1197.

The fact that, in the instant case, respondents' use of the payments in question, in connection with the liquidation of their own debt, may likewise have been of benefit to the purchasers, is immaterial; the fact that a payment is “for the mutual benefit of the parties” being no obstacle to the receipt of income (*Brown v. Com.*, 220 F. 2d 12-16).

It is thus abundantly clear that respondents were no mere “conduits,” as claimed, and that the “installment payments actually received” by them were none the less so, because of respondents' payments to the mortgagee. This would be true, even if the payments of purchasers to respondents were segregated for a special use; but in the present case, as has been seen, in the actual carrying out of the transaction, which is the test, for tax purposes (*Helvering v. Lazarus Co.*, 308 U.S. 252, 255; *Crane v. Com.*, 331 U. S. 1, 13, footnote 33; *Charlotte Union Bus Station v. Com.*, 209 F. 2d 586) there was no segregation or earmarking; no intended synchronization

of payments by purchasers to respondents, and payments by respondents to the Bank; and the latter payments were out of respondents' own unsegregated general funds, and made prior to and irrespective of the payments, or failure to make payments, of the purchasers (*supra*, pp. 11-12). It is idle, in such circumstances, to allege that respondents were mere "conduits."

Petitioner's brief (p. 49) declares that "the taxpayers made an equitable argument to the Tax Court . . . based on the fact that the Commissioner's application of Section 29. 44-2 of Treasury Regulations 111 results in taxing the entire profit on these contracts within approximately the first twenty-seven months." This, however, is not a mere equitable argument—although the results are, indeed, inequitable; it is a demonstration of the clear invalidity of the Commissioner's procedure.

Petitioner's brief argues, further, (pp. 49-50) that "The short answer to this argument . . . is that the taxpayers themselves arranged the transaction so that their profit would be received within" that period. This is indeed a short answer, but it is not a valid one. When, and in what amounts, the total profit on an entire installment sale is to be considered as realized, for purposes of return of income under sec. 44, depends, not on the private systems of accounting of the parties, or the size of the particular installments, as arranged by them, but solely upon the provisions of sec. 44 itself. The statute, itself, lays down the formula by which installment payments are divided, "part as return of capital, and part to profit" (*S. & L. Bldg. Corp.* case, *supra*, 288 U.S. 406, 413, 414).

If, for example, the parties in the present instance had so arranged, that all of the installments, or amounts equal thereto, were to be applied by the vendor to payments on the mortgage until the latter was completely liquidated, so that only the very last installments were received by seller, with no concomitant obligation to pay out—in such case, the taxpayer would scarcely have been permitted to *defer* report of income, for 20 years!

Petitioner's contention, then, that portions of "installment payments actually received" by respondents or the whole of such installments, may be excluded from consideration, in returning their income for the year in question, is without support in reason or authority, and violates legal precedent no less than common sense. In this connection, we must again stress the rule that "the words of statutes—including revenue acts—should be interpreted where possible in their ordinary, everyday sense" (*Crane v. Com.*, 331 U.S. 1, 6). And can it seriously be doubted that, in their ordinary sense, the words "installment payments actually received" mean the *whole* of such installments, and the whole of *all* of them? Not a mere part, of some of them! The contracts themselves designate the payments as "installments"; and, nobody in ordinary legal or business transactions, would have the least doubt of this.

Of utmost pertinence here, moreover, is the rule, already referred to in Point I (*supra*, pp. 36-37), that "treasury regulations . . . cannot add a condition on a right which Congress did not impose, *unless the addition was necessary* to make effective the conditions imposed by Congress." (*Philadelphia Elec. Co. v. U.S.*, 117 F.Supp.

424, citing numerous authority; ital. suppl.) In the present case, it must constantly be borne in mind that the gross distortion of the statute contended for by petitioner arises not out of any manner of necessity or practical justification, such as the Supreme Court insisted upon in the *S. & L. Bldg. Corp.* case, and not in aid of the well understood statutory purpose of sec. 44, but in a situation where it defeats that purpose. Respondents submit that it is overwhelmingly clear that, under such circumstances, the construction of the statute contended for by petitioner may not be allowed to stand, and that the Regulation, if so interpreted, would be invalid.

As for petitioners' resort to the doctrine of Congressional re-enactment of the statute, to establish the validity of the regulation, this doctrine, of course, so far as relevant, applies only to the general validity of the regulation, as it relates to situations clearly and unambiguously covered. It does not in any way establish the validity of the regulation, if given the interpretation now contended for by the Commissioner—a new departure, in contravention of the statute, and certainly neither uniform nor well settled. *U. S. v. Calamaro*, 354 U.S. 351; *U. S. v. Raynor*, 302 U.S. 540, 552; *White v. Winchester*, 315 U.S. 32, 40; *U. S. v. Mo. Pac. R. Co.*, 278 U.S. 269, 280; *Burnet v. Chicago Portrait Co.*, 285 U.S. 1, 16. See *supra*, pp. 55-56.

Respondents strongly urge, however, that it is not necessary for this court to invalidate the Regulation. If possible, as is well established, a regulation should be given a construction which will not violate the statute. *Cf. Com. v. Landers Corp.*, 210 F.2d 188, 191, where the court, construing another portion of Reg. 111, emphasized that “We

cannot give to the Regulations a construction which will violate the language of the statute'' (citing cases). As the court declared, in *Fidelity-Philadelphia Trust Co. v. U. S.*, 122 F.Supp. 551, 553:

''The regulation implements the statute and cannot violate or change the statute. *If possible it must be interpreted consistently with Congressional mandate*, but, if in derogation of the statute, it must be declared void as beyond the power of the Commissioner to so regulate. *There is possible a simple, logical interpretation of Reg. 105, Par. 81, 33 that does no violence to the statute.*'' (Ital. suppl.)

Similarly, ''in interpreting a regulation courts will ordinarily avoid a construction which *raises doubt* as to its validity.'' *Merten's Federal Income Taxation*, (1942 Ed.) Vol. 1, p. 90; ital. supp.; *Newman et al. v. Com.*, 76 F. 2d 449.

In the present case, likewise, there is a simple, logical interpretation that does no violence to the statute, raises no grave doubts of validity, and carries out the spirit and intent of sec. 44. It is the interpretation of the Regulation in accordance with the usual and proper meaning of its terms and with the practical administrative necessities and justification that led to its adoption. Respondents submit that this is the construction of the Regulation which should here prevail.

POINT III.

THE CASE OF CRANE v. COMMISSIONER, 331 U.S. 1, RELIED UPON BY PETITIONER, IS IRRELEVANT TO THE ISSUES OF THIS CASE.

Petitioner's brief relies very heavily upon the case of *Crane v. Com.*, 331 U.S. 1. That case, however, has nothing whatsoever to do with a situation arising under sec. 44. It decided that a taxpayer, who took real property encumbered by a mortgage, by inheritance, and who had taken depreciation in her tax returns on the full value of the property, undiminished by the mortgage, must include the amount of the mortgage in the "amount realized" from a sale of the property, although she never was personally liable thereon. The precise ground of the court's decision was that, under I.R.C. Sec. 113, the basis was the value of the whole physical "property," not merely the value of the equity; and that, to be consistent, the amount realized from the "property," under Sec. 111(b), must likewise use that term in the same sense. The court was deeply influenced by the fact that the taxpayer had claimed, and been allowed, depreciation on the whole value of the property. It further declared (pp. 13, 14), that, as a matter of economic reality, "The owner of property, mortgaged at a figure less than that at which the property will sell, must and will treat the conditions of the mortgage exactly as if they were his personal obligations. If he transfers them subject to a mortgage, the benefit to him is as real and substantial as if the mortgage were discharged . . ."

It is quite clear, however, that the entire doctrine of the *Crane* case is merely a general one, relating primarily to the determination of "amount realized" on a sale

governed by general principles, and that it has no application whatsoever *to a special statutory situation, where the return of income is governed by special statutory rules, such as Sec. 44.*

The *Crane* case, as stated, arose and was decided in connection with a sale governed by I.R.C. Secs. 111-113—the general provisions covering situations not expressly dealt with otherwise by special enactment. It did not establish any *universal* rule, for the ascertainment of amounts received, in conflict with more specific provisions. Thus, in *Lansdale Structural Steel & Machinery Co.*, 14 T.C. 1428, the court held that the *Crane* case was inapplicable to the question of what constitutes “paid in” invested capital, under the special provisions of I.R.C. Sec. 718.¹¹

Specifically, with reference to sec. 44, it has been squarely decided by the Supreme Court that the determination of “amounts received” by the taxpayer reporting under that section, is *not* governed by the rules obtaining for cases arising under Secs. 111-113—the sections of the Code involved in the *Crane* case—but by the *different* rules pertaining to Sec. 44. Thus, in *Com. v. South*

¹¹Petitioner's brief (p. 45) cites *Com. v. Fortee Properties*, 211 F.2d 915, as supporting a general application of the *Crane* case. But the Court there merely held that in the particular situation there before it, such doctrine was applicable. The case did not in any way involve the special scheme of Sec. 44, or anything analogous thereto. The Tax Court has refused to follow the *Fortee* case. Moreover, in the *Fortee* case, the vendor was under no personal liability, the property was condemned, and the mortgage paid off, so that the vendor could, by no possibility, remain under any burden. Even so, the Tax Court has refused to follow the *Fortee* case; *Frank W. Babcock*, 28 T.C. 781.

Texas Co., 333 U.S. 496, the Supreme Court declared in so many words, that

“where a taxpayer has validly reported its income from installment sales on the installment basis provided by sec. 44, *that section, not secs. 111, 112 and 113 prescribes the extent to which receipts from such sales are ‘recognized’ as taxable and the year in which such receipts are ‘recognized’ in computing taxable income.*” (Ital. suppl.)

This ruling is in entire accord with—in fact, necessary to—the whole special statutory scheme laid down in Sec. 44 for the recognition and return of income in cases arising thereunder; and in accord with its whole general intent, which was, to repeat, to spread the tax evenly over the entire period of “installment payments actually received.”

Similarly, in *Rhett W. Woody*, 19 T.C. 350, 354, the court held that the general rules relative to the determination of the amount and nature of gain, where there are no express provisions of the Code, “are not determinative” on issues arising under sec. 44.

Indeed, as the Supreme Court pointed out in the *South Texas* case, *supra*, the statute with reference to which the *Crane* case was decided, Sec. 111, itself specifically guards against any interference with the special statutory scheme of Sec. 44 by reason of the provisions of sec. 111, or any construction of sec. 111 (such as the *Crane* doctrine), by providing as follows:

“Sec. 111 . . . (d) Installment sales.

Nothing in this section shall be construed to prevent (in the case of property sold under contract provid-

ing for payment in installments) the taxation of that portion of any installment payment representing gain or profit *in the year in which such payment is received.*" (Ital. supplied.)

Nothing could be plainer than this express statutory recognition of the special statutory scheme for reporting income from installment sales, and this express statutory prohibition of any interference with that special scheme, by reason of the general rules developed in connection with Sec. 111.

Even if it were not expressly so provided, the same conclusions would necessarily follow from the very nature of the special provisions of sec. 44, which are obviously irreconcilable with the general method of reporting income.

Economic gain, under sec. 44, is recognized only to the extent that it is compatible with the provisions of that section. The mere fact that, according to the ordinary rules, a vendor realizes certain income in the year of sale, affords no excuse for violation of the statute. Sec. 44 was enacted for the very purpose of enabling the taxpayer to follow a *different* system of reporting, and to defer the taxation of income otherwise indubitably taxable in the year of sale; and its provisions must be followed, and the taxation of profit deferred, if the sale is reported under sec. 44, no matter what actual economic benefit, and what security, the seller receives in the year of sale. Thus, evidences of indebtedness of the purchaser may not be taxed, even if represented by negotiable notes, and even if those notes are secured, and have a fair market value of 100% of their face. Indeed, the purchaser's obligations

may not be included in "initial payments" even if they are amply secured by *independent* collateral, unconnected with the subject of the sale. *R. L. Brown Coal & Coke Co., et al.*, 14 B.T.A. 609, 614; *Mertens, Fed. Inc. Tax*, (1942 Ed.) Vol. 2, p. 478. This is far more security than the respondents herein could possibly be said to enjoy, merely because of the practical considerations adverted to in the *Crane* case; but the terms and special scheme of the statute are unaffected thereby, and must none the less be followed.

Moreover, it should be noted that the *Crane* doctrine is one based upon economic realities, rather than technical rules, and that, even aside from Sec. 44, it would be here utterly inappropriate. In the *Crane* case itself, the seller was said to have realized income to the amount of the mortgage, in the year of sale, even though the purchaser did not assume the mortgage, because, as a practical matter, the seller was at that time entirely relieved from the burden. But in the *Crane* case, the seller was not, herself, personally liable, so that, upon the sale, she had no further possible involvement or responsibility on the mortgage. Similarly, in other cases following the *Crane* case, the sale was under such circumstances that the seller was completely absolved of all liability, or else, the property itself was ample security beyond any reasonable contingency, for the debt. In no case has the *Crane* doctrine been applied *where the seller remained personally liable*, and the property was not clear and ample security for the obligation. In the instant case, however, as shown above (*supra*, p. 12) not only did respondents remain personally and solely liable, but there was a 90%

mortgage on the property; the purchasers had only the most dubious responsibility, and the expenses attendant upon default would completely consume the equity; any slight change in realty values would immediately produce a deficiency; and against the background of the highly uncertain war conditions then prevailing, the burden of vendor's continuing liability could not, as a matter of "economic reality," on which the *Crane* doctrine is based, in any reasonable sense be said to have been lifted. *Cf. Clinton Park Development Co.*, 209 F. 2d 951. Under these circumstances and even if the special and entirely incompatible scheme of Sec. 44 were not here involved and controlling, it would be a parody upon the spirit and reasoning of the *Crane* case, to attempt to apply it to the facts of the present case.

Indeed, the very Regulation here in question itself furnishes conclusive proof of the entire inapplicability of the *Crane* doctrine to sec. 44. For the Regulation, first promulgated in 1926, shortly after the enactment of the statute, so far from attempting to reach the amount of the mortgage, as presently received income in the year of sale, *excluded* the entire amount of the mortgages dealt with, from "initial payment." This is not the *Crane* doctrine; it is the exact opposite.

Nor did the amendment of the Regulation in 1929, introducing the present provision respecting the inclusion of "excess" of mortgage over vendor's basis, as part of "initial payment" (in the case of assumed mortgages, or where the property is taken "subject to" the mortgage, in the usual sense explained in Point I), make any change in this respect. The *Crane* case has nothing to do with mere

“excess;” its rationale, where applicable at all, requires the recognition of the *entire amount* of the mortgage as part of the “amount received” at the time of the sale—not merely a part of it. The Regulation regarding “excess” did not adopt any such theory; it totally rejected it; and was promulgated as shown in detail in Point I, merely as a matter of practical administrative necessity, to plug a loop-hole in the scheme, and prevent the escape of income from taxation.

Petitioner’s invocation of the *Crane* case as authority for the procedure followed by him indicates, it is submitted, a fundamental misconception of the question, here to be decided. It is not a question, here, of what Congress intends shall be recognized as received income, in the ordinary case. It is solely a question of what Congress intended to recognize as income in the *special* case of installment sales reported under sec. 44. With this issue, the *Crane* case does not concern itself, and plays no part. And if the regulation here involved were to be construed, as contended for by petitioner, on the strength of the views expressed in that case, it would still be invalid, because of direct conflict with the specific provisions of sec. 44, discussed in Point II, *supra*.

CONCLUSION.

This court has not looked with favor upon regulations, or strained constructions of regulations, which tamper unnecessarily with the plain provisions of sec. 44 and curtail the privilege there granted. *Gilbert v. Com.*, 241 F. 2d 491. In the present case, likewise, the plain provisions of sec. 44 are applicable without any complications

arising, any profit escaping, or any collection of taxes being unduly deferred. As Petitioner's brief (p. 20) itself concedes, the profit, under the interpretation contended for by respondents and adopted by the Tax Court below, is spread "*over the life of the sales contract.*" It is submitted that this is precisely what sec. 44 intends, and demands.

Dated, San Francisco, California,
January 20, 1958.

BERT F. RABINOWITZ,
Attorney for Respondents.

(Appendices A and B Follow.)



Appendices.

Appendix A

Petitioner's Exhibits	Stipulated
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The Stonecrest Corporation	
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1-A	R. 22
1-B	R. 22
3(b)	R. 23
3(c)	R. 23
3(d)	R. 23
3(e)	R. 23
3(f)	R. 23
4(a)	R. 23
5(a)	R. 23
5(b)	R. 23
5(c)	R. 24
6(a)	R. 24
6(b)	R. 24
6(c)	R. 24
6(d)	R. 24
7(a)	R. 25
7(b)	R. 25
7(c)	R. 25
7(d)	R. 25
7(e)	R. 25
7(a-1)	R. 25
7(a-2)	R. 25
7(a-3)	R. 25
8(a)	R. 27
8(b)	R. 27
8(c)	R. 27
9(a)	R. 37
9(b)	R. 37
9(c)	R. 38
9(d)	R. 38

The Brookfield Corporation	
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1-A	R. 51
1-B	R. 52

The exhibits attached to the stipulation filed by the Stonecrest Corporation (R. 19-48) and designated as Exhibits 3(b), 3(c),

3(d), 3(e), 3(f), 4(a), 5(a), 5(b), 5(c), 6(a), 6(b), 6(d), 7(a), 7(a-1), 7(a-2), 7(a-3), 7(b), 7(c), 7(d), 7(e), 8(a), 8(b), 8(c) and 9(a), 9(b), 9(c), 9(d) are identical to the corresponding form or agreements used by Brookfield Corporation with the exception that the name Brookfield was substituted for the name Stonecrest on the documents with respect to agreements or business forms used by Brookfield (R. 54).

Appendix B

The figures set forth in the schedule of amounts *involved* in this appeal (Pet. Br. p. 2) are merely the amounts specified in the Commissioner's Notices of Deficiency, both dated April 9, 1952 (R. 7, 69, 120-121), with the following exceptions and modifications.

1. They do not reflect the over-assessment of Income Tax for the year 1943 in the amount of \$4,422.24, determined by the Commissioner in his said Notices of Deficiency addressed to Respondent Stonecrest (such over-assessment automatically following from the decrease in income subject to Income Tax, occasioned by the petitioner's increase of income subject to Excess Profits Tax.)

2. They add and include over-assessments and exclude deficiencies found by the Tax Court in its decisions herein, dated October 13, 1955 (Pet. Br. p. 2; R. 140, 141-142).

In addition, it is to be noted that petitioner's schedules of the amount involved in the appeal have not been adjusted by him to reflect the effect of the following Stipulations entered into by the parties, viz:

(a) Allowable officers' salaries for the years 1944 and 1945 as to each respondent (R. 90).

(b) Recognition that in the case of Respondent Brookfield, 49 contracts were reported as Deferred Payment Sales (not on the Installment Method) and that their fair market value at the respective dates of sale was $66\frac{2}{3}\%$ of their face value (R. 50-51, 60-61, 117-119).

(c) Agreement that if the petitioner herein prevails, net operating loss carry-backs and resulting unused excess profits credit carry-backs resulting from the determination of Respondent Brookfield's income for the years 1946 and 1947 in accordance with such a decision, would be duly taken into consideration in determining the deficiencies in Income and Excess Profits Taxes due from such respondent for the years 1942, 1943, 1944 and 1945 (R. 57-59).

